CBSE Class 12 Accountancy Question Paper 2023 with Solution PDF-Set 67-C-2 - Compartment

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

Time Allowed: 3 hours **Maximum Marks: 80**

General Instructions

(i) This question paper contains **34** questions. **All** questions are **compulsory**.

(ii) This question paper is divided into **two** parts — **Part A** and **Part B**.

(iii) **Part A** is **compulsory** for all candidates.

(iv) **Part B** has two options i.e. (1) Analysis of Financial Statements, and (2) Computerised Accounting. Candidates must attempt only **one** of the given options as per the subject opted in **Part B**.

(v) Questions no. **1 to 16** and **27 to 30** carry **1 mark** each.

(vi) Questions no. **17 to 20, 31** and **32** carry **3 marks** each.

(vii) Questions no. **21, 22** and **33** carry **4 marks** each.

(viii) Questions no. **23 to 26** and **34** carry **6 marks** each.

(ix) There is no overall choice. However, an internal choice has been provided in **7** questions of **one** mark, **2** questions of **three** marks, **1** question of **four** marks and **2** questions of **six** marks.

Part A (60 marks)

(Accounting for Partnership Firms and Companies)

1. ***Assertion (A) :*** **Interest on bearer debentures is paid to a person who produces the interest coupon attached to such debentures.**

Reason (R) : **Bearer debentures are debentures which can be transferred by way of delivery and the company does not keep any record of the debenture holders.**

Select the correct answer from the following : [1 mark]

(A) Assertion (A) is correct, but Reason (R) is wrong.

(B) Both Assertion (A) and Reason (R) are correct, but Reason (R) is **not** the correct explanation of Assertion (A).

(C) Both Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A).

(D) Both Assertion (A) and Reason (R) are wrong.

Correct Answer: (C) Both Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A).

Solution:

Concept:

- Bearer debentures are transferable by mere delivery; the company does not maintain a register identifying their successive holders.
- Interest coupons attached to bearer debentures provide evidence of the right to receive the specified interest payment.

Step 1: Examine the assertion Assertion (A) is correct: interest on bearer debentures is paid to the person presenting the relevant interest coupon. The company need not identify that person from a register of debenture holders.

Step 2: Examine the reason Reason (R) is also correct. Ownership can pass by delivery, and the company does not keep a record of bearer debenture holders.

Step 3: Connect the two statements Because the company has no recorded holder to whom it can direct the interest payment, presentation of the coupon establishes the claim. Thus R explains A. Options (A) and (D) wrongly reject true statements; option (B) wrongly denies this explanatory connection.

Step 4: Conclusion Both statements are correct, and R correctly explains A. Hence, the correct option is (C).

Quick Tip to Solve: For bearer debentures, connect payment of interest with presentation of the coupon, not a register of holders.

2(i). K.C. Ltd. took over office furniture of Rs. 90,000, office equipment of Rs. 1,80,000 from J.C. Ltd. and its liabilities of Rs. 20,000 for a purchase consideration of Rs. 3,60,000. The payment to J.C. Ltd. was made by issue of 9% debentures of Rs. 50 each at a discount of 10%. The amount to be debited to 'Discount on Issue of Debentures Account' will be : [1 mark]

(A) Rs. 36,000

(B) Rs. 40,000

(C) Rs. 27,000

(D) Rs. 90,000

Correct Answer: (B) Rs. 40,000

Solution:

Concept:

- Issue price equals face value less discount: $P = F(1-d)$, where F is face value and d is the discount rate.
- Discount on issue equals the number of debentures multiplied by discount per debenture.

Step 1: Determine the issue price Each Rs 50 debenture is issued at a discount of 10%. Thus discount per debenture is $50 \times 10/100 = \text{Rs } 5$, and issue price is $50 - 5 = \text{Rs } 45$.

Step 2: Calculate the total discount The debentures must discharge the agreed purchase consideration of Rs 3,60,000. Therefore,

$$N = \frac{3,60,000}{45} = 8,000, \qquad D = 8,000 \times 5 = \text{Rs } 40,000.$$

The assets and liabilities determine goodwill, not the discount on this settlement. Rs 36,000 incorrectly applies 10% to consideration; Rs 27,000 and Rs 90,000 also fail the issue-price calculation.

Step 3: Conclusion Discount on Issue of Debentures Account is debited by Rs 40,000. Hence, the correct option is (B).

Quick Tip to Solve: Divide consideration by the discounted issue price before multiplying by the discount per debenture.

OR

2(ii). Raja Ltd. purchased machinery for Rs. 25,00,000 from Sharma Ltd. The payment to Sharma Ltd. was made by issue of equity shares of Rs. 10 each at a premium of 25%. The amount to be credited to the 'Securities Premium Reserve Account' on issue of equity shares will be : [1 mark]

(A) Rs. 25,000

(B) Rs. 50,000

(C) Rs. 62,500

(D) Rs. 5,00,000

Correct Answer: (D) Rs. 5,00,000

Solution:

Concept:

- Issue price per share equals face value plus securities premium.
- The number of shares issued for an asset equals purchase consideration divided by issue price.

Step 1: Calculate issue price and number of shares Premium per share is $10 \times 25/100 = \text{Rs } 2.50$. Hence issue price is $10 + 2.50 = \text{Rs } 12.50$, giving

$$N = \frac{25,00,000}{12.50} = 2,00,000 \text{ shares.}$$

Step 2: Determine the securities premium credit Securities Premium Reserve is credited with the premium on all shares issued:

$$2,00,000 \times 2.50 = \text{Rs } 5,00,000.$$

The remaining Rs 20,00,000 is share capital at face value. The premium rate is applied to face value per share, not directly to the machinery price. Thus the smaller amounts in (A), (B) and (C) do not represent the premium on 2,00,000 shares.

Step 3: Conclusion Securities Premium Reserve is credited with Rs 5,00,000. Hence, the correct option is (D).

Quick Tip to Solve: When premium is 25% of face value, premium is 25/125 of the total issue consideration.

3. C, D and E were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. They admitted F as a new partner for 1/4 share in the profits which was sacrificed by C, D and E in the ratio of 2 : 1 : 2. C's new share in the profits will be : [1 mark]

(A) 2/5

(B) 3/5

(C) 3/10

(D) 4/20

Correct Answer: (A) 2/5

Solution:

Concept:

- New share of an old partner equals old share minus that partner's sacrifice.
- An incoming partner's share is allocated among the old partners in the stated sacrificing ratio.

Step 1: Find C's sacrifice C's original share is $5/(5+3+2) = 1/2$. The sacrificing ratio totals $2+1+2=5$, so C sacrifices $2/5$ of F's share:

$$\frac{2}{5} \times \frac{1}{4} = \frac{1}{10}.$$

Step 2: Subtract sacrifice from old share C's new share is

$$\frac{1}{2} - \frac{1}{10} = \frac{5}{10} - \frac{1}{10} = \frac{4}{10} = \frac{2}{5}.$$

The sacrificing ratio divides only F's incoming share, not the entire profits. Option (B) would increase C's share despite a sacrifice; options (C) and (D) subtract amounts inconsistent with the specified ratio.

Step 3: Conclusion C's new profit share is $2/5$. Hence, the correct option is (A).

Quick Tip to Solve: First multiply the incoming share by C's fraction of total sacrifice; then subtract from C's old share.

4. X and Z were partners in a firm with capitals of Rs. 45,000 each. They admitted Y as a new partner for 1/3rd share in the profits of the firm. Y brought Rs. 60,000 as his capital. Based on Y's share in the profits of the firm and his capital contribution, the goodwill of the firm will be : [1 mark]

(A) Rs. 1,80,000

(B) Rs. 1,50,000

(C) Rs. 30,000

(D) Rs. 90,000

Correct Answer: (C) Rs. 30,000

Solution:

Concept:

- Total implied capital equals incoming partner's capital divided by the incoming profit share.
- Hidden goodwill equals implied total capital minus the actual combined capitals after admission.

Step 1: Calculate the implied total capital Y brings Rs 60,000 for a $1/3$ profit share. The implied capital of the firm is

$$60,000 \div \frac{1}{3} = \text{Rs } 1,80,000.$$

This is the capitalised value, rather than goodwill itself.

Step 2: Compare with actual capitals Actual combined capitals are $45,000 + 45,000 + 60,000 =$ Rs $1,50,000$. Therefore, hidden goodwill is

$$1,80,000 - 1,50,000 = \text{Rs } 30,000.$$

Option (A) is implied total capital and (B) is actual total capital; (D) merely totals the old partners' capitals. None of these is the difference required for goodwill.

Step 3: Conclusion Goodwill of the firm is Rs 30,000. Hence, the correct option is (C).

Quick Tip to Solve: Include the incoming partner's capital in actual total capital before finding the hidden goodwill difference.

5. Josh and Jeevan were partners in a firm. During the year ended 31.03.2022 Jeevan withdrew Rs. 5,000 per month starting from 30.06.2021. The partnership deed provided that interest on drawings will be charged @ 12% per annum. The average number of months for which interest on Jeevan's total drawings will be charged is : [1 mark]

(A) 6 months

(B) 6 1/2 months

(C) 4 1/2 months

(D) 5 months

Correct Answer: (C) 4 1/2 months

Solution:

Concept:

- For equal monthly drawings, the average period is half the sum of the longest and shortest outstanding periods.
- Interest is computed up to the financial year end; a drawing on the closing date has zero months outstanding.

Step 1: Identify the outstanding periods The first drawing, on 30 June 2021, remains outstanding for 9 months until 31 March 2022. Monthly drawings continue through 31 March 2022; the last drawing has zero months outstanding. There are ten equal drawings, with periods $9, 8, 7, 6, 5, 4, 3, 2, 1, 0$ months.

Step 2: Calculate the average period Because the withdrawals are equal, their average period is

$$\frac{9+0}{2} = 4.5 \text{ months.}$$

Equivalently, total monthly products give $(9+8+\cdots+0)/10 = 45/10$. The rate of 12% affects interest, not the average duration. Six and six-and-a-half months assume a full year of drawings, while five months would incorrectly include an extra month.

Step 3: Conclusion The average period is $4\frac{1}{2}$ months. Hence, the correct option is (C).

Quick Tip to Solve: Use the first and last actual drawing dates, including zero months for a withdrawal on the year-end date.

6. After doing the adjustments regarding drawings Rs. 40,000, share of profit Rs. 24,000 and the additional capital introduced Rs. 32,000, the capital of Ashok, a partner, as on 31.03.2022 was Rs. 5,00,000. His capital as on 01.04.2021 was : [1 mark]

(A) Rs. 4,84,000

(B) Rs. 5,16,000

(C) Rs. 4,46,000

(D) Rs. 5,96,000

Correct Answer: (A) Rs. 4,84,000

Solution:

Concept:

- Closing capital equals opening capital plus additional capital plus profit share minus drawings.
- To reconstruct opening capital, reverse each change made during the year.

Step 1: Set up the capital equation Let opening capital be C. Drawings reduce capital, whereas the profit share and additional capital increase it. Accordingly,

$$5,00,000 = C + 32,000 + 24,000 - 40,000.$$

The net increase during the year is Rs 16,000.

Step 2: Reverse the adjustments Opening capital is therefore

$$C = 5,00,000 - 32,000 - 24,000 + 40,000 = \text{Rs } 4,84,000.$$

Check: $4,84,000 + 32,000 + 24,000 - 40,000 = 5,00,000$. Option (B) adds the net increase instead of removing it; (C) omits the reversal of drawings; (D) adds all adjustments regardless of their direction.

Step 3: Conclusion Ashok's capital on 01.04.2021 was Rs 4,84,000. Hence, the correct option is (A).

Quick Tip to Solve: Work backwards from closing capital: add back drawings, and deduct profit and fresh capital introduced.

7. On the dissolution of a partnership firm there existed a balance of Rs. 45,000 in Sundry Debtors Account and a balance of Rs. 8,000 in Provision for Bad Debts Account in the books of the firm. The amount by which 'Realisation Account' will be debited for closing Sundry Debtors Account will be : [1 mark]

(A) Rs. 45,000

(B) Rs. 37,000

(C) Rs. 8,000

(D) Rs. 53,000

Correct Answer: (A) Rs. 45,000

Solution:

Concept:

- At dissolution, assets other than cash or bank are transferred to the debit of Realisation Account at their gross book balances.
- An existing provision for doubtful debts is transferred separately to the credit of Realisation Account.

Step 1: Identify the balance transferred Sundry Debtors Account has a debit balance of Rs 45,000. Closing this asset account requires a credit of Rs 45,000 to it and an equal debit to Realisation Account. The question asks specifically for this asset-transfer debit.

Step 2: Distinguish the separate provision The provision of Rs 8,000 is credited separately to Realisation Account when the provision account is closed. Thus Rs 37,000 is the net effect of both transfers, not the amount debited for closing debtors. Rs 8,000 is the provision alone, and Rs 53,000 incorrectly adds the provision to the asset transfer. The full debtor balance remains the requested debit.

Step 3: Conclusion Realisation Account is debited by Rs 45,000 for closing Sundry Debtors Account. Hence, the correct option is (A).

Quick Tip to Solve: When asked for the debit on transferring debtors, use gross debtors; close their provision separately.

8. S and T were partners in a firm sharing profits and losses in the ratio of 3 : 2. They admitted U as a new partner in the firm. On U's admission there existed a provision for bad and doubtful debts of Rs. 7,000. It was decided to write off Rs. 3,000 as bad debts. The remaining debtors were considered as good. The amount to be debited/credited to Revaluation Account on account of the above treatment will be : [1 mark]

(A) Debit Rs. 3,000

(B) Credit Rs. 4,000

(C) Debit Rs. 7,000

(D) Debit Rs. 4,000

Correct Answer: (B) Credit Rs. 4,000

Solution:

Concept:

- Existing provision is first used to cover identified bad debts.
- If all remaining debtors are good, no closing provision is required; any unused old provision is a revaluation gain.

Step 1: Use the existing provision Of the existing provision of Rs 7,000, Rs 3,000 covers the debts now written off. The unused amount is

$$7,000 - 3,000 = \text{Rs } 4,000.$$

There is no need to create a fresh provision because the remaining debtors are considered good.

Step 2: Identify the revaluation effect The surplus provision is released and credited to Revaluation Account as a gain of Rs 4,000. It is not a debit: the old provision more than covers the loss. Thus option (A) ignores the existing provision, option (C) reverses its effect, and option (D) identifies the surplus amount but gives the wrong side of the account. The old profit ratio governs later distribution of the revaluation result, not this credit.

Step 3: Conclusion Revaluation Account is credited by Rs 4,000. Hence, the correct option is (B).

Quick Tip to Solve: Subtract actual bad debts from the old provision; release the excess as a gain when all remaining debtors are good.

9(i). **C and D were partners in a firm. E was admitted as a new partner for 1/6 share. E acquired 1/3rd of his share from C and the remaining from D.**

The sacrificing ratio of C and D was : [1 mark]

(A) 1 : 2

(B) 1 : 1

(C) 16 : 9

(D) 2 : 1

Correct Answer: (A) 1 : 2

Solution:

Concept:

- Sacrificing ratio compares the shares of profit surrendered by the old partners to the incoming partner.
- When a new partner acquires a stated fraction of his share from one partner, multiply that fraction by his total share.

Step 1: Calculate each sacrifice E receives $\frac{1}{6}$ of total profits. C gives $\frac{1}{3}$ of E's share, so C's sacrifice is $\frac{1}{3} \times \frac{1}{6} = \frac{1}{18}$. D gives the remaining $\frac{2}{3}$ of E's share, so D's sacrifice is $\frac{2}{3} \times \frac{1}{6} = \frac{1}{9}$.

Step 2: Compare the surrendered shares Thus C : D is $\frac{1}{18} : \frac{1}{9} = 1 : 2$. The sacrifices add to $\frac{1}{6}$, as required. Option (B) would mean equal sacrifices; option (D) reverses the contributors; and option (C) does not match the stated division of E's share.

Step 3: Conclusion The sacrificing ratio of C and D is $1 : 2$. Hence, the correct option is (A).

Quick Tip to Solve: Compare the fractions of E's share directly: one-third versus two-thirds gives $1 : 2$.

OR

9(ii). **A, B and C were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. With effect from 01.04.2023, they agreed to share profits and losses equally. Due to change in the profit sharing ratio, B's gain or sacrifice will be :** [1 mark]

(A) Gain 1/30

(B) Sacrifice 1/30

(C) Gain 5/30

(D) Sacrifice 4/30

Correct Answer: (A) Gain 1/30

Solution:

Concept:

- Gain equals new profit share minus old profit share; a positive difference indicates gain.
- Equal sharing among three partners gives each partner $\frac{1}{3}$ of total profits.

Step 1: Identify B's old and new shares B's old share is $\frac{3}{5+3+2} = \frac{3}{10}$. Under the revised agreement effective 01.04.2023, his new share is $\frac{1}{3}$. Only B's individual difference is needed; no goodwill amount

is supplied or required.

Step 2: Calculate and classify the difference B's gain is

$$\frac{1}{3} - \frac{3}{10} = \frac{10-9}{30} = \frac{1}{30}.$$

Since the new share exceeds the old share, it is a gain, ruling out (B) and (D). Option (C) gives an incorrect magnitude; $\frac{5}{30}$ is not B's difference.

Step 3: Conclusion B gains $\frac{1}{30}$. Hence, the correct option is (A).

Quick Tip to Solve: Convert both shares to a common denominator before deciding gain or sacrifice.

10(i). B and D were partners. According to the provisions of partnership deed, interest on B's capital for the year ended 31.03.2022 was calculated at Rs. 4,000.

The necessary journal entry for transferring interest on B's capital to Profit and Loss Appropriation Account will be : [1 mark]

(A) Profit and Loss Appropriation A/c Dr. Rs. 4,000

To B's Capital A/c Rs. 4,000

(B) Profit and Loss Appropriation A/c Dr. Rs. 4,000

To Interest on B's Capital A/c Rs. 4,000

(C) Interest on B's Capital A/c Dr. Rs. 4,000

To Profit and Loss Appropriation A/c Rs. 4,000

(D) Profit and Loss Appropriation A/c Dr. Rs. 4,000

To B's Current A/c Rs. 4,000

Correct Answer: (B) Profit and Loss Appropriation A/c Dr. Rs. 4,000

To Interest on B's Capital A/c Rs. 4,000

Solution:

Concept:

- Interest on capital is an appropriation of partnership profit, debited to Profit and Loss Appropriation Account.
- Transfer closes the separate Interest on Capital Account by crediting it; crediting the partner records the earlier allowance.

Step 1: Identify the transfer stage The interest of Rs 4,000 has already been calculated for B. The question asks for its transfer to Profit and Loss Appropriation Account. Therefore the debit is to that appropriation account and the credit is to Interest on B's Capital Account.

Step 2: Record the closing entry Journal

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31.03.2022	Profit and Loss Appropriation A/c Dr. To Interest on B's Capital A/c (Being interest on B's capital transferred)		4,000	 4,000

Options (A) and (D) credit the partner directly rather than close the interest account. Option (C) reverses the required transfer.

Step 3: Conclusion Profit and Loss Appropriation A/c is debited and Interest on B's Capital A/c credited with Rs 4,000. Hence, the correct option is (B).

Quick Tip to Solve: Distinguish allowing interest to a partner from transferring the interest account to appropriation.

OR

10(ii). K and L were partners in a firm. Their partnership deed provided that interest on partner's drawings will be charged @ 12% per annum. Interest on L's drawings for the year ended 31.03.2022 was calculated at Rs. 900.

The necessary journal entry for charging interest on L's drawings will be : [1 mark]

(A) Profit and Loss Appropriation A/c Dr. Rs. 900

To Interest on Drawings A/c Rs. 900

(B) Interest on Drawings A/c Dr. Rs. 900

To Profit and Loss Appropriation A/c Rs. 900

(C) L's Capital/Current A/c Dr. Rs. 900

To Interest on Drawings A/c Rs. 900

(D) Interest on Drawings A/c Dr. Rs. 900

To Partner's Capital/Current A/c Rs. 900

Correct Answer: (C) L's Capital/Current A/c Dr. Rs. 900

To Interest on Drawings A/c Rs. 900

Solution:

Concept:

- Interest on drawings is charged to the partner: debit the partner's Capital Account or Current Account, as applicable.
- The corresponding credit is to Interest on Drawings Account; its transfer to appropriation is a separate entry.

Step 1: Identify the amount and accounts The calculated charge on L's drawings is Rs 900. The stated annual rate need not be applied again. Charging this amount reduces L's claim against the firm, so L's Capital/Current Account is debited and Interest on Drawings Account is credited.

Step 2: Record the charge Journal

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31.03.2022	L's Capital/Current A/c Dr. To Interest on Drawings A/c (Being interest on L's drawings charged)		900	 900

Option (B) represents the subsequent transfer to appropriation; (A) reverses that transfer, while (D) reverses the charge to the partner.

Step 3: Conclusion L's Capital/Current A/c is debited and Interest on Drawings A/c credited with Rs

900. Hence, the correct option is (C).

Quick Tip to Solve: For charging interest on drawings, debit the partner whose withdrawals caused the charge.

11(i). A and B were partners in a firm. They admitted C as a new partner for 1/3rd share in the profits of the firm which he acquired from A. A's new share in the profit will be : [1 mark]

(A) 1/2

(B) 1/4

(C) 1/3

(D) 1/6

Correct Answer: (D) 1/6

Solution:

Concept:

- In the absence of an agreed profit sharing ratio, partners share profits equally.
- An old partner's new share equals his old share minus the share surrendered to the incoming partner.

Step 1: Determine the old shares No profit sharing ratio is stated for A and B. Therefore their old shares are equal: A has $\frac{1}{2}$ and B has $\frac{1}{2}$. C acquires his entire $\frac{1}{3}$ share from A alone, so B's share remains unchanged.

Step 2: Deduct A's sacrifice A's new share is

$$\frac{1}{2} - \frac{1}{3} = \frac{3-2}{6} = \frac{1}{6}.$$

The new shares total $\frac{1}{6} + \frac{1}{2} + \frac{1}{3} = 1$. Option (A) leaves A's sacrifice undeducted, (C) confuses C's share with A's new share, and (B) incorrectly treats the admission as an equal reduction from both old partners.

Step 3: Conclusion A's new share is $\frac{1}{6}$. Hence, the correct option is (D).

Quick Tip to Solve: When C takes his whole share from A, deduct it only from A and leave B unchanged.

OR

11(ii). P, Q and R were partners in a firm. On 31.03.2022, R died. R's share was taken over by P. P's new share in the profits of the firm will be : [1 mark]

(A) 2/3

(B) 1/3

(C) 1/2

(D) 3/4

Correct Answer: (A) 2/3

Solution:

Concept:

- Where no profit sharing ratio is specified, partners are entitled to equal shares of profit.
- A continuing partner's new share equals his old share plus the deceased partner's share taken over by him.

Step 1: Find the old shares P, Q and R have no specified profit sharing ratio, so each has $\frac{1}{3}$. R's death ends his participation in future profits. The question expressly states that P takes over R's share, so Q does not gain any part of it.

Step 2: Add P's gain to his old share P's new share is $\frac{1}{3} + \frac{1}{3} = \frac{2}{3}$, while Q retains $\frac{1}{3}$. These shares add to one. Option (B) ignores the takeover, (C) would result from equal sharing by the survivors, and (D) has no basis in the original equal shares or in R's stated takeover.

Step 3: Conclusion P's new share is $\frac{2}{3}$. Hence, the correct option is (A).

Quick Tip to Solve: Add the deceased partner's whole share to the particular partner named as taking it over.

12(i). Persons who have entered into partnership with one another are individually called as : [1 mark]

(A) Partners

(B) Members

(C) Firm

(D) Owners

Correct Answer: (A) Partners

Solution:

Concept:

- The persons who enter into partnership are individually called partners.
- Those same persons are collectively called a firm; the collective name and the individual designation are different.

Step 1: Apply the individual designation The question asks what each person is called after entering into partnership with the others. The precise accounting term is partner. Therefore the plural designation for the persons individually is partners, as stated in option (A).

Step 2: Eliminate the other descriptions Option (B), members, is not the required partnership designation. Option (C), firm, describes the partners collectively rather than individually. Option (D), owners, is a broad description of a proprietary interest but does not give the specific term requested. The word individually is the decisive distinction in this definition.

Step 3: Conclusion They are individually called partners. Hence, the correct option is (A).

Quick Tip to Solve: Underline individually: partners is the individual term, while firm is the collective term.

OR

12(ii). Madhu and Radha were partners in a partnership firm sharing profits and losses in the ratio of 3 : 2. Madhu withdrew Rs. 20,000 in each quarter during the year ended 31.03.2023. Interest on drawings was to be charged @ 6% p.a. Interest on Madhu's drawings will be : [1 mark]

(A) Rs. 3,000

(B) Rs. 2,400

(C) Rs. 1,800

(D) Rs. 4,800

Correct Answer: (B) Rs. 2,400

Solution:

Concept:

- For equal quarterly drawings with no beginning or end specified, the average period is six months.
- Interest equals total drawings multiplied by the annual rate and by the average period divided by twelve.

Step 1: Calculate the yearly drawings and period Madhu makes four withdrawals of Rs 20,000, so total drawings are $4 \times 20,000 = \text{Rs } 80,000$. Since the question does not specify the beginning or end of each quarter, use the average-period convention of six months. The profit sharing ratio does not enter this calculation.

Step 2: Apply the annual interest rate

$$I = 80,000 \times \frac{6}{100} \times \frac{6}{12} = \text{Rs } 2,400.$$

Option (A), Rs 3,000, would use 7.5 months for beginning-of-quarter withdrawals; (C), Rs 1,800, uses 4.5 months for end-of-quarter withdrawals. Neither timing is stated. Option (D), Rs 4,800, charges all drawings for a full year, although they are spread through the year.

Step 3: Conclusion Interest on Madhu's drawings is Rs 2,400. Hence, the correct option is (B).

Quick Tip to Solve: If equal periodic drawings have no stated timing, use an average period of six months.

13. On 1st April, 2022, Zaira Ltd. issued 5000, 8% Debentures of Rs. 100 each at 5% premium, redeemable at a premium of 10% after 3 years.

The total interest due on debentures for the year ending 31st March, 2023 will be : [1 mark]

(A) Rs. 40,000

(B) Rs. 25,000

(C) Rs. 50,000

(D) Rs. 75,000

Correct Answer: (A) Rs. 40,000

Solution:

Concept:

- Debenture interest is calculated on nominal value, regardless of premium on issue or redemption.
- Annual interest equals number of debentures multiplied by face value and the stated annual rate.

Step 1: Find the nominal principal and time The company issued 5,000 debentures of Rs 100 each on 1 April 2022. Their nominal value is $5,000 \times 100 = \text{Rs } 5,00,000$. They remain outstanding throughout the year ending 31 March 2023, so interest is due for one full year.

Step 2: Calculate interest and test the alternatives

$$I = 5,00,000 \times \frac{8}{100} = \text{Rs } 40,000.$$

The 5% issue premium affects the cash received, while the 10% redemption premium concerns the amount repayable after three years. Neither changes the 8% coupon on face value. Consequently Rs 25,000, Rs 50,000 and Rs 75,000 in the other options do not represent the annual contractual interest.

Step 3: Conclusion The total annual debenture interest is Rs 40,000. Hence, the correct option is (A).

Quick Tip to Solve: Apply the coupon rate to face value; leave issue and redemption premiums out of interest.

14. On 1st April, 2022, Zaira Ltd. issued 5000, 8% Debentures of Rs. 100 each at 5% premium, redeemable at a premium of 10% after 3 years.

'Loss on Issue of Debentures Account' will be debited by which of the following amount ? [1 mark]

(A) Rs. 75,000

(B) Rs. 40,000

(C) Rs. 50,000

(D) Rs. 25,000

Correct Answer: (C) Rs. 50,000

Solution:

Concept:

- Loss on issue comprises discount on issue, if any, and the premium payable on redemption.

- Premium received on issue is credited separately to Securities Premium Account; it is not netted against the initial loss debit.

Step 1: Find the redemption obligation The nominal value issued is $5,000 \times$ Rs $100 =$ Rs $5,00,000$. The extra amount promised on redemption is $5,00,000 \times 10/100 =$ Rs $50,000$. There is no issue discount because the debentures are issued above par.

Step 2: Distinguish the two premiums The issue premium is $5,00,000 \times 5/100 =$ Rs $25,000$, credited to Securities Premium Account. The loss debit at issue is the full redemption premium, Rs 50,000. Rs 75,000 wrongly adds the premiums; Rs 25,000 wrongly nets them; Rs 40,000 is annual interest at 8%, not loss on issue.

Step 3: Conclusion Loss on Issue of Debentures Account is debited with Rs 50,000. Hence, the correct option is (C).

Quick Tip to Solve: Keep the issue premium credit separate from the redemption-premium loss debit at the date of issue.

15. In which of the following cases is the business of a firm not dissolved by court ? [1 mark]

(A) When a partner becomes insane

(B) With the consent of all the partners

(C) When a partner becomes permanently incapable of performing his duties as a partner

(D) When a partner is guilty of misconduct which is likely to adversely affect the business of the firm

Correct Answer: (B) With the consent of all the partners

Solution:

Concept:

- A firm may dissolve by agreement of all partners; this does not require an order of the court.
- Insanity, permanent incapacity and misconduct prejudicing the business are grounds on which the court may order dissolution.

Step 1: Identify voluntary dissolution When all partners consent to ending the business, dissolution takes place by their mutual agreement. The partners themselves decide to dissolve the firm, so consent of all partners is the case sought by the word **not**.

Step 2: Check the other grounds Insanity of a partner can justify a court order, so (A) is excluded. Permanent incapacity to perform partnership duties is also a judicial ground, excluding (C). Misconduct likely to adversely affect the business is another ground for judicial dissolution, excluding (D). These circumstances differ from unanimous voluntary consent.

Step 3: Conclusion Dissolution with the consent of all the partners is dissolution by agreement. Hence, the correct option is (B).

Quick Tip to Solve: For a negative question about court dissolution, distinguish unanimous agreement from a ground for a court order.

16. K, L and M were partners in a firm sharing profits and losses in the ratio of 1 : 2 : 3. On 31.03.2022, M retired. On M's retirement the Balance Sheet of the firm showed a balance of Rs. 45,000 in Workmen's Compensation Fund. Till that date no claim for workmen compensation was received.

The necessary journal entry for the treatment of Workmen's Compensation Fund on M's retirement will be : [1 mark]

(A) K's Capital A/c Dr. 15,000
L's Capital A/c Dr. 15,000
M's Capital A/c Dr. 15,000
To Workmen's Compensation Fund A/c 45,000

(B) Workmen's Compensation Fund A/c Dr. 45,000
To K's Capital A/c 15,000
To L's Capital A/c 15,000
To M's Capital A/c 15,000

(C) Workmen's Compensation Fund A/c Dr. 45,000
To K's Capital A/c 7,500
To L's Capital A/c 15,000
To M's Capital A/c 22,500

(D) K's Capital A/c Dr. 7,500
L's Capital A/c Dr. 15,000
M's Capital A/c Dr. 22,500
To Workmen's Compensation Fund A/c 45,000

Correct Answer: (C) Workmen's Compensation Fund A/c Dr. 45,000
To K's Capital A/c 7,500
To L's Capital A/c 15,000
To M's Capital A/c 22,500

Solution:

Concept:

- An accumulated Workmen Compensation Fund with no claim is distributed among all old partners in their old profit-sharing ratio.
- Debit the fund to close it and credit the partners' capital accounts for their shares.

Step 1: Apportion the unclaimed reserve No compensation claim exists, so the entire Rs 45,000 is available. The old ratio is $1 : 2 : 3$, whose sum is 6. Thus K receives $45,000 \times 1/6 =$ Rs $7,500$, L receives Rs 15,000 and M receives Rs 22,500. Retirement does not deprive M of his share of the accumulated fund.

Step 2: Record the distribution

Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Workmen's Compensation Fund A/c Dr.		45,000	
	To K's Capital A/c			7,500
	To L's Capital A/c			15,000
	To M's Capital A/c			22,500
	(Being unclaimed fund distributed in the old ratio)			

Options (A) and (D) reverse the entry. Option (B) uses equal shares despite the unequal old ratio.

Step 3: Conclusion The fund is debited Rs 45,000 and K, L and M are credited Rs 7,500, Rs 15,000 and Rs 22,500 respectively. Hence, the correct option is (C).

Quick Tip to Solve: With no claim, distribute the full fund to all old partners in 1:2:3 before applying the retirement changes.

17(a). Nisha, Priya and Rajat were partners in a firm sharing profits in the ratio of 2 : 2 : 1. The firm closes its books on 31st March every year. Priya died on 1st July 2022. On Priya's death, the goodwill of the firm was valued at Rs. 3,00,000 and her share in the profits of the firm till the time of her death was to be calculated on the basis of previous year's profit which was Rs. 6,00,000.

Pass necessary journal entries for the treatment of goodwill and Priya's share of profit at the time of her death. [3 marks]

Solution:

Concept:

- The deceased partner's goodwill share is borne by the continuing partners in their gaining ratio, without opening a goodwill account.
- Profit to the date of death is estimated from last year's profit and credited to the deceased partner through Profit and Loss Suspense Account.

Step 1: Calculate goodwill and gaining shares **Working Notes.** Priya's old share is $2/5$. Her goodwill entitlement is Rs $3,00,000 \times 2/5 =$ Rs $1,20,000$. No new ratio is specified, so Nisha and Rajat continue in their relative old ratio $2:1$. Their gains are $2/3 - 2/5 = 4/15$ and $1/3 - 1/5 = 2/15$, also $2:1$. They bear Rs 80,000 and Rs 40,000 respectively.

Step 2: Estimate profit up to death The elapsed period from 1 April to 1 July is three months. Estimated firm profit is Rs $6,00,000 \times 3/12 =$ Rs $1,50,000$. Priya's share is Rs $1,50,000 \times 2/5 =$ Rs $60,000$. This is an interim entitlement before actual annual profit is determined.

Step 3: Pass the journal entries

Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Nisha's Capital A/c Dr.		80,000	
	Rajat's Capital A/c Dr.		40,000	
	To Priya's Capital A/c			1,20,000
	(Being goodwill adjusted in the gaining ratio 2:1)			
	Profit and Loss Suspense A/c Dr.		60,000	
	To Priya's Capital A/c			60,000
	(Being estimated profit up to death credited to Priya)			

Step 4: Conclusion Priya's Capital Account is credited Rs 1,20,000 for goodwill and Rs 60,000 for profit up to death, totalling Rs 1,80,000 for these adjustments.

Quick Tip to Solve: Use three months for April to July and charge goodwill only to Nisha and Rajat in their gaining ratio 2:1.

OR

17(b). Sharma and Verma were partners in a firm sharing profits and losses in the ratio of 3 : 2. Their fixed capitals were Rs. 14,00,000 and Rs. 10,00,000 respectively. The partnership deed provided for the following :

(i) Interest on capital @ 10% per annum.

(ii) Interest on drawings @ 12% per annum.

During the year ended 31.03.2023, Sharma withdrew Rs. 2,00,000 and Verma withdrew Rs. 1,00,000. After preparing the accounts for the year ended 31.03.2023, it was realised that interest on capital was not allowed and interest on drawings was not charged.

Showing your working notes clearly pass necessary journal entries in the books of the firm to rectify the above error. [3 marks]

Solution:

Concept:

- Under the fixed-capital method, omitted appropriations are adjusted through partners' current accounts.
- When dates of drawings are unspecified, interest on the total annual drawings is calculated for an average period of six months.

Step 1: Calculate the omitted interest **Working Notes.** Interest on capital: Sharma $14,00,000 \times 10/100 =$ Rs $1,40,000$; Verma $10,00,000 \times 10/100 =$ Rs $1,00,000$. Interest on drawings: Sharma $2,00,000 \times 12/100 \times 6/12 =$ Rs $12,000$; Verma $1,00,000 \times 12/100 \times 6/12 =$ Rs $6,000$. The total capital interest is Rs 2,40,000 and drawings interest is Rs 18,000.

Step 2: Determine the net adjustment Allowing capital interest and charging drawings interest reduces divisible profit by $2,40,000 - 18,000 =$ Rs $2,22,000$. Consequently the profit already credited

must be reduced in 3:2: Sharma by $2,22,000 \times 3/5 =$ Rs $1,33,200$, Verma by Rs 88,800. Sharma's net entitlement is $1,40,000 - 12,000 - 1,33,200 = -$Rs $5,200$. Verma's is $1,00,000 - 6,000 - 88,800 =$ Rs $5,200$. The equal debit and credit confirm that total partnership equity is unchanged.

Step 3: Pass one rectifying entry

Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31.03.23	Sharma's Current A/c Dr. To Verma's Current A/c (Being omitted interest on capital and drawings adjusted through current accounts)		5,200	 5,200

Step 4: Conclusion Debit Sharma's Current Account and credit Verma's Current Account by Rs 5,200 each.

Quick Tip to Solve: First net capital interest against drawings interest, then reverse the resulting excess profit allocation in 3:2.

18. P and Q were partners in a firm sharing profits and losses in the ratio of 2 : 1. On 01.04.2022, they admitted R as a new partner for 1/10th share of profits with a guaranteed minimum of Rs. 50,000. P and Q continued to share profits as before but agreed to share any deficiency on account of guarantee to R in the ratio of 3 : 2. The net profit of the firm for the year ended 31.03.2023 was Rs. 3,00,000. Pass necessary journal entries in the books of P and Q for the above transactions. [3 marks]

Solution:

Concept:

- A guaranteed partner first receives the normal share of profit; any shortfall is borne by the guarantors in their agreed deficiency ratio.
- The continuing partners share the remaining profit in their previous relative ratio; the deficiency ratio applies only to the guarantee shortfall.

Step 1: Find the normal shares **Working Notes.** R receives $1/10$, leaving $9/10$ for P and Q in 2:1. Thus P's share is $9/10 \times 2/3 = 6/10$ and Q's is $3/10$. The new ratio is $6 : 3 : 1$. From Rs 3,00,000, their normal shares are P Rs 1,80,000, Q Rs 90,000 and R Rs 30,000.

Step 2: Calculate and allocate the deficiency R is guaranteed Rs 50,000 but his normal share is Rs 30,000. The deficiency is $50,000 - 30,000 =$ Rs $20,000$. P bears $20,000 \times 3/5 =$ Rs $12,000$; Q bears $20,000 \times 2/5 =$ Rs $8,000$. Their final shares are Rs 1,68,000 and Rs 82,000, while R receives Rs 50,000. These add to the available Rs 3,00,000.

Step 3: Record allocation and guarantee

Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31.03.23	Profit and Loss Appropriation A/c Dr.		3,00,000	
	To P's Capital A/c			1,80,000
	To Q's Capital A/c			90,000
	To R's Capital A/c			30,000
	(Being profit distributed in the ratio 6:3:1)			
31.03.23	P's Capital A/c Dr.		12,000	
	Q's Capital A/c Dr.		8,000	
	To R's Capital A/c			20,000
	(Being guarantee deficiency borne in ratio 3:2)			

Step 4: Conclusion The final profit credits are P Rs 1,68,000, Q Rs 82,000 and R Rs 50,000 after adjusting the guarantee deficiency.

Quick Tip to Solve: Apply 6:3:1 to total profit, then apply 3:2 only to R's Rs 20,000 deficiency.

19(a). On 01.04.2021, Aman Ltd. purchased from Kamal Ltd. Machinery Rs. 5,00,000, Furniture Rs. 3,00,000 and Land and Building Rs. 40,00,000. It also took over the sundry creditors of Kamal Ltd. of Rs. 8,00,000. The purchase consideration was Rs. 36,00,000. Payment to Kamal Ltd. was made by issue of 9% Debentures of Rs. 100 each at a discount of 10%. On 31.03.2022, the company decided to write off 'Discount on Issue of Debentures Account' according to the provisions of Companies Act, 2013.

Pass necessary journal entries for the above transactions in the books of Aman Ltd. [3 marks]

Solution:

Concept:

- Assets acquired are debited at their agreed values; liabilities taken over and the vendor are credited. Excess net assets over purchase consideration is Capital Reserve.
- For debentures issued at a discount, issue price equals face value less discount. The vendor is credited only with the agreed purchase consideration; the discount is a separate debit.

Step 1: Compute capital reserve and debentures Net assets acquired $= 5,00,000 + 3,00,000 + 40,00,000 - 8,00,000 =$ Rs $40,00,000$. Capital reserve $= 40,00,000 - 36,00,000 =$ Rs $4,00,000$. Each debenture settles $100 - 10 =$ Rs 90, so the number issued is $36,00,000/90 = 40,000$. Their nominal value is Rs 40,00,000 and discount is Rs 4,00,000. The acquisition creates a capital profit of Rs 4,00,000 in Capital Reserve. This available capital profit is used to write off the discount of Rs 4,00,000.

Step 2: Record the transactions Journal of Aman Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
01.04.2021	Machinery A/c Dr.		5,00,000	
	Furniture A/c Dr.		3,00,000	
	Land and Building A/c Dr.		40,00,000	
	To Sundry Creditors A/c			8,00,000
	To Kamal Ltd.			36,00,000
	To Capital Reserve A/c			4,00,000
	(Being assets and liabilities taken over and capital reserve recognised)			
01.04.2021	Kamal Ltd. Dr.		36,00,000	
	Discount on Issue of Debentures A/c Dr.		4,00,000	
	To 9% Debentures A/c			40,00,000
	(Being 40,000 debentures issued at 10% discount to settle the vendor)			
31.03.2022	Capital Reserve A/c Dr.		4,00,000	
	To Discount on Issue of Debentures A/c			4,00,000
	(Being discount on issue written off)			

Step 3: Conclusion Aman Ltd. issues 40,000 debentures, recognises Capital Reserve of Rs 4,00,000 and uses it to write off the entire discount of Rs 4,00,000.

Quick Tip to Solve: Divide purchase consideration by the discounted issue price, Rs 90, rather than by face value.

OR

19(b). On 01.04.2021, Bain Ltd. purchased from Cayres Ltd., Machinery at Rs. 17,00,000 and Land and Building at Rs. 40,00,000. It also took over its liabilities amounting to Rs. 7,00,000. The purchase consideration of Rs. 60,00,000 was paid as follows : Rs. 5,00,000 through a cheque and the balance by issue of 9% debentures of Rs. 100 each at a premium of 10%.

Pass necessary journal entries for the above transactions in the books of Bain Ltd. [3 marks]

Solution:

Concept:

- Goodwill equals purchase consideration less the agreed net assets acquired when consideration exceeds net assets.
- Debentures issued at a premium credit Debentures Account with nominal value and Securities Premium Account with the excess issue price.

Step 1: Calculate goodwill and debenture issue Net assets $= 17,00,000 + 40,00,000 - 7,00,000 =$ Rs $50,00,000$. The purchase consideration exceeds these assets by $60,00,000 - 50,00,000 =$ Rs $10,00,000$, which is goodwill. After the cheque payment, the amount settled by debentures is $60,00,000 - 5,00,000 =$ Rs $55,00,000$. Issue price per debenture $= 100 + 10 =$ Rs 110; hence number issued $= 55,00,000/110 = 50,000$. Nominal value is Rs 50,00,000 and securities premium is Rs 5,00,000. The premium forms part of the consideration paid to the vendor.

Step 2: Pass the journal entries Journal of Bain Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
01.04.2021	Machinery A/c Dr.		17,00,000	
	Land and Building A/c Dr.		40,00,000	
	Goodwill A/c Dr.		10,00,000	
	To Liabilities A/c			7,00,000
	To Cayres Ltd.			60,00,000
	(Being assets and liabilities purchased and goodwill recognised)			
01.04.2021	Cayres Ltd. Dr.		60,00,000	
	To Bank A/c			5,00,000
	To 9% Debentures A/c			50,00,000
	To Securities Premium A/c			5,00,000
	(Being vendor paid by cheque and 50,000 debentures issued at 10% premium)			

The first entry balances at Rs 67,00,000 on each side; the settlement entry balances at Rs 60,00,000 on each side.

Step 3: Conclusion Goodwill is Rs 10,00,000. Bain Ltd. issues 50,000 debentures of Rs 100 each, with securities premium of Rs 5,00,000.

Quick Tip to Solve: Deduct the cheque first, then divide the remaining consideration by the premium-inclusive price of Rs 110.

20. On 01.04.2022, Ravi, Kavi and Avi started a partnership firm with fixed capitals of Rs. 6,00,000, Rs. 6,00,000 and Rs. 3,00,000 respectively. The partnership deed provided for the following :

(i) Interest on capital @ 10% per annum.

(ii) Interest on drawings @ 12% per annum.

(iii) An annual salary of Rs. 1,20,000 to Avi.

(iv) Profits and losses were to be shared in the ratio of their capitals.

The net profit of the firm for the year ended 31.03.2023 was Rs. 3,08,000. Interest on partners' drawings was Ravi Rs. 4,800, Kavi Rs. 4,200 and Avi Rs. 3,000.

Prepare Profit and Loss Appropriation Account of Ravi, Kavi and Avi for the year ended 31.03.2023.

[3 marks]

Solution:

Concept:

- Interest on drawings is credited to Profit and Loss Appropriation Account; interest on capital and partner salary are debited before sharing the residual profit.
- With fixed capitals, appropriations and profit shares are transferred to partners' Current Accounts. Profit-sharing ratio follows the capitals: $6 : 6 : 3 = 2 : 2 : 1$.

Step 1: Calculate appropriations and residual profit Interest on capital for the full year is Ravi $6,00,000 \times 10\% =$ Rs $60,000$, Kavi Rs 60,000 and Avi $3,00,000 \times 10\% =$ Rs $30,000$. Total interest is Rs 1,50,000. Interest on drawings is already given: $4,800 + 4,200 + 3,000 =$ Rs $12,000$; it must not

be calculated again using 12%. Profit available for appropriation is $3,08,000 + 12,000 =$ Rs $3,20,000$. After Avi's salary and interest on capital, residual profit is $3,20,000 - 1,20,000 - 1,50,000 =$ Rs $50,000$. Shares in $2:2:1$ are Ravi Rs 20,000, Kavi Rs 20,000 and Avi Rs 10,000.

Step 2: Prepare the appropriation account Profit and Loss Appropriation Account for the year ended 31.03.2023

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Interest on Capital:		By Profit and Loss A/c	3,08,000	
	Ravi's Current A/c	60,000	By Interest on Drawings:		
	Kavi's Current A/c	60,000	Ravi's Current A/c	4,800	
	Avi's Current A/c	30,000	Kavi's Current A/c	4,200	
	To Avi's Current A/c (Salary)	1,20,000	Avi's Current A/c	3,000	
	To Profit transferred to:				
	Ravi's Current A/c	20,000			
	Kavi's Current A/c	20,000			
	Avi's Current A/c	10,000			
	Total	3,20,000	Total	3,20,000	

This nominal account is closed by transferring the residual profit to the partners; it has no balance carried down.

Step 3: Conclusion The residual profit of Rs 50,000 is credited to Ravi, Kavi and Avi in amounts Rs 20,000, Rs 20,000 and Rs 10,000 respectively.

Quick Tip to Solve: Add the given drawings interest to net profit before deducting salary and capital interest.

21. On 01.04.2022, S Ltd. took over the business of T Ltd. consisting of sundry assets of Rs. 17,00,000 and liabilities of Rs. 6,00,000 for a purchase consideration of Rs. 10,50,000. Payment to T Ltd. was made by issue of 9% debentures of the face value of Rs. 12,00,000. On 31.03.2023, S Ltd. decided to write off Discount on Issue of Debentures according to the provisions of the Companies Act, 2013. Pass necessary journal entries in the books of S Ltd. for the above transactions. [4 marks]

Solution:

Concept:

- Purchase consideration is the amount payable to the vendor. Net assets taken over equal assets less liabilities; any excess of net assets over purchase consideration is capital reserve.
- Debentures are credited at their nominal value. The excess of nominal value over the amount settled is Discount on Issue of Debentures, which is written off against available capital profits and then the Statement of Profit and Loss.

Step 1: Calculate capital reserve and discount Net assets acquired are Rs $17,00,000 -$ Rs $6,00,000 =$ Rs $11,00,000$. Since the agreed purchase consideration is Rs 10,50,000, the capital profit is

$$\text{Capital reserve} = 11,00,000 - 10,50,000 = \text{Rs } 50,000.$$

The debentures discharge the entire amount payable to T Ltd.; their face value is Rs 12,00,000. Thus,

$$\text{Discount on issue} = 12,00,000 - 10,50,000 = \text{Rs } 1,50,000.$$

The rate of discount is $1,50,000/12,00,000 \times 100 = 12.5\%$. The stated 9% is the interest rate, not the issue discount. No interest entry is required by these transactions.

Step 2: Record the acquisition and issue of debentures Journal of S Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
01.04.2022	Business Purchase A/c Dr. To T Ltd. (Being business purchased for the agreed consideration)		10,50,000	 10,50,000
01.04.2022	Sundry Assets A/c Dr. To Sundry Liabilities A/c To Business Purchase A/c To Capital Reserve A/c (Being assets and liabilities taken over and capital profit recognised)		17,00,000	 6,00,000 10,50,000 50,000
01.04.2022	T Ltd. Dr. Discount on Issue of Debentures A/c Dr. To 9% Debentures A/c (Being debentures issued at discount to settle the vendor's claim)		10,50,000 1,50,000	 12,00,000

Step 3: Write off the discount at the year end The available capital reserve of Rs 50,000 is applied first. The remaining discount, $1,50,000 - 50,000 =$ Rs $1,00,000$, is charged to the Statement of Profit and Loss.

Journal of S Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31.03.2023	Capital Reserve A/c Dr. Statement of Profit and Loss Dr. To Discount on Issue of Debentures A/c (Being discount on issue written off against available capital reserve and the Statement of Profit and Loss)		50,000 1,00,000	 1,50,000

Step 4: Conclusion The acquisition creates capital reserve of Rs 50,000. Discount on issue of Rs 1,50,000 is fully written off: Rs 50,000 against capital reserve and Rs 1,00,000 against the Statement of Profit and Loss.

Quick Tip to Solve: Compute net assets and purchase consideration separately; the debentures settle the vendor at the purchase consideration, while their face value determines the credit.

22. B, C and D were partners in a firm sharing profits and losses in the ratio of 3 : 5 : 2. On 31.03.2022 their Balance Sheet was as follows :

Balance Sheet of B, C and D as at 31st March, 2022

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	1,10,000	Building	2,00,000
Reserve Fund	60,000	Machinery	3,00,000
Capitals:		Stock	2,10,000
B	3,00,000	Debtors	80,000
C	2,50,000	Bank	80,000
D	1,50,000		
Total	8,70,000	Total	8,70,000

C died on 01.10.2022. On C's death, goodwill was valued at Rs. 1,87,500. The revaluation of assets and reassessment of liabilities resulted into a loss of Rs. 10,000. The partnership deed provided that on the death of a partner, goodwill will be treated without opening goodwill account. C's share of profit till the date of his death was calculated at Rs. 70,000.

Prepare C's Capital account to be presented to his executors at the time of his death and also C's Executor's account, assuming that half the amount due to him was paid immediately on C's death.

[4 marks]

Solution:

Concept:

- A deceased partner receives the opening capital, share of accumulated reserves, goodwill compensation and profit up to death, after deducting the share of revaluation loss.
- C's old profit share is $5/10 = 1/2$. With no new ratio stated, B and D gain in their old relative ratio $3 : 2$; they compensate C for goodwill without opening a Goodwill Account.

Step 1: Calculate the adjustments to C's capital C's share of reserve is $60,000 \times 5/10 = \text{Rs } 30,000$, and the share of revaluation loss is $10,000 \times 5/10 = \text{Rs } 5,000$.

$$\text{C's goodwill share} = 1,87,500 \times \frac{5}{10} = \text{Rs } 93,750.$$

The continuing partners B and D bear this amount in their gaining ratio $3 : 2$. Their capital accounts are debited by $93,750 \times 3/5 = \text{Rs } 56,250$ and $93,750 \times 2/5 = \text{Rs } 37,500$, respectively, and C's capital is credited. No Goodwill Account is opened. The given Rs 70,000 already represents C's share of profit up to death; it must not be multiplied by the profit share again or prorated for six months.

Step 2: Prepare C's Capital Account on 01.10.2022 C's Capital Account

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
To Revaluation A/c	5,000	By Balance b/d	2,50,000
To C's Executor's A/c	4,38,750	By Reserve Fund A/c	30,000
		By B's Capital A/c	56,250
		By D's Capital A/c	37,500
		By Profit and Loss Suspense A/c	70,000
Total	4,43,750	Total	4,43,750

The credit balance transferred to the executor is

$$2,50,000 + 30,000 + 93,750 + 70,000 - 5,000 = \text{Rs } 4,38,750.$$

The capital account is closed by transfer of the entire claim to C's Executor's Account, rather than retaining a balance in the deceased partner's capital account.

Step 3: Prepare C's Executor's Account Half the amount due is paid immediately:

$$\text{Immediate payment} = \frac{4,38,750}{2} = \text{Rs } 2,19,375.$$

The unpaid half remains payable to the executor. There are no loan terms or interest terms in the question, so no interest is added at the date of death.

C's Executor's Account

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
To Bank A/c	2,19,375	By C's Capital A/c	4,38,750
To Balance c/d	2,19,375		
Total	4,38,750	Total	4,38,750
		By Balance b/d	2,19,375

Step 4: Conclusion C's total claim is Rs 4,38,750. The executors receive Rs 2,19,375 immediately, and the remaining Rs 2,19,375 is the credit balance in C's Executor's Account.

Quick Tip to Solve: Treat the stated profit as C's own share; credit it in full, and split the final executor claim only after all capital adjustments.

23. U and V were partners in a firm sharing profits and losses in the ratio of 3 : 2. On 31.03.2022 their firm was dissolved. On that date the Balance Sheet of the firm was as follows:

Balance Sheet of U and V as at 31st March, 2022

Liabilities		Amount (Rs)	Assets	Amount (Rs)
Current Liabilities		5,70,000	Bank	1,80,000
Long Term Loan		10,30,000	Other Current Assets	8,20,000
Capitals:				
U	7,00,000	15,00,000	Fixed Assets	20,70,000
V	8,00,000		Profit and Loss A/c	30,000
Total		31,00,000	Total	31,00,000

Other current assets realised Rs. 8,00,000 and fixed assets realised at the book value. Both Current Liabilities and Long-term loan were settled at 10% less than the book value. Expenses on dissolution were Rs. 4,000.

Prepare Realisation Account and Partners' Capital Accounts. [6 marks]

Solution:

Concept:

- On dissolution, transfer all non-cash assets and outside liabilities to Realisation Account at their book values. Bank and the debit balance of Profit and Loss Account are excluded.
- Transfer the accumulated loss and realisation profit or loss to partners in their profit-sharing ratio,

U : V $= 3 : 2$. Final credit capital balances are paid through Bank.

Step 1: Calculate amounts realised, liabilities paid and accumulated loss Other current assets realise Rs 8,00,000 and fixed assets realise their book value of Rs 20,70,000, so total receipts are Rs 28,70,000. Outside liabilities transferred are Rs 5,70,000 + Rs 10,30,000 = Rs 16,00,000.

$$\text{Current liabilities paid} = 5,70,000 \times 90\% = 5,13,000,$$
$$\text{Long-term loan paid} = 10,30,000 \times 90\% = 9,27,000,$$
$$\text{Total liabilities paid} = 14,40,000.$$

The debit balance of Profit and Loss Account is an accumulated loss of Rs 30,000. Debit U's Capital by Rs 18,000 and V's Capital by Rs 12,000. It does not form part of the realisation result.

Step 2: Prepare Realisation Account Realisation Account

Dr.			Cr.
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Other Current Assets	8,20,000	By Current Liabilities	5,70,000
To Fixed Assets	20,70,000	By Long-term Loan	10,30,000
To Bank (liabilities paid)	14,40,000	By Bank (assets realised)	28,70,000
To Bank (expenses)	4,000		
To U's Capital (profit)	81,600		
To V's Capital (profit)	54,400		
Total	44,70,000	Total	44,70,000

The gain on settling liabilities is Rs 1,60,000; loss on assets is Rs 20,000; expenses are Rs 4,000. Thus realisation profit is Rs 1,36,000, shared as Rs 81,600 to U and Rs 54,400 to V. Transfer of this profit closes Realisation Account.

Step 3: Prepare Partners Capital Accounts Partners' Capital Accounts

Dr.			Cr.		
Particulars	U (Rs)	V (Rs)	Particulars	U (Rs)	V (Rs)
To Profit and Loss	18,000	12,000	By Balance b/d	7,00,000	8,00,000
To Bank	7,63,600	8,42,400	By Realisation	81,600	54,400
Total	7,81,600	8,54,400	Total	7,81,600	8,54,400

Both capital accounts close on final payment, so there is no balance carried down. As a cash check: opening bank Rs 1,80,000 plus realisation proceeds Rs 28,70,000, less liabilities Rs 14,40,000 and expenses Rs 4,000, leaves Rs 16,06,000, equal to the total paid to partners.

Step 4: Conclusion Realisation profit is $\boxed{\text{Rs } 1,36,000}$. Final payments: U $\boxed{\text{Rs } 7,63,600}$ and V $\boxed{\text{Rs } 8,42,400}$.

Quick Tip to Solve: Keep Bank and the debit Profit and Loss balance out of Realisation Account; adjust the accumulated loss directly in capitals.

24. Pass necessary journal entries for the issue of debentures in the following cases :

(i) Issued 3000, 9% debentures of Rs. 100 each at par, redeemable at a premium of Rs. 15 per debenture.

(ii) Issued 2000, 9% debentures of Rs. 100 each at 10% premium and redeemable at a premium of 5%.

(iii) Issued Rs. 75,00,000, 9% debentures at 10% discount, redeemable at par. [6 marks]

Solution:

Concept:

- Debentures Account is credited with face value. Bank records issue proceeds. Issue premium is credited to Securities Premium Reserve.
- Premium payable on redemption is credited to Premium on Redemption of Debentures Account and debited to Loss on Issue of Debentures. Issue discount also forms part of this loss.

Step 1: Case (i): Issue at par, redeemable at premium Face value and cash received are $3,000 \times 100 =$ Rs $3,00,000$. Redemption premium is $3,000 \times 15 =$ Rs $45,000$; it is recognised when the debentures are issued.

Journal (amounts in Rs)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		3,00,000	
	Loss on Issue of Debentures A/c Dr.		45,000	
	To 9% Debentures A/c			3,00,000
	To Premium on Redemption of Debentures A/c			45,000
	(Being 3,000 debentures issued at par, redeemable at a premium of Rs 15 each)			

The premium is payable on redemption, so it increases the future liability rather than the cash received on issue.

Step 2: Case (ii): Issue at premium, redeemable at premium Face value is $2,000 \times 100 =$ Rs $2,00,000$. Issue premium is Rs 20,000, giving bank receipts of Rs 2,20,000. Redemption premium is $2,00,000 \times 5\% =$ Rs $10,000$.

Journal (amounts in Rs)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		2,20,000	
	Loss on Issue of Debentures A/c Dr.		10,000	
	To 9% Debentures A/c			2,00,000
	To Securities Premium Reserve A/c			20,000
	To Premium on Redemption of Debentures A/c			10,000
	(Being 2,000 debentures issued at 10% premium, redeemable at 5% premium)			

Issue premium and redemption premium are separate amounts: the former is received now; the latter is owed when redeeming the debentures. They are therefore recorded separately.

Step 3: Case (iii): Issue at discount, redeemable at par The face value given is Rs 75,00,000. Discount is $75,00,000 \times 10\% =$ Rs $7,50,000$, so Bank receives Rs 67,50,000. Since redemption is at par, there is no premium on redemption.

Journal (amounts in Rs)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		67,50,000	
	Loss on Issue of Debentures A/c Dr.		7,50,000	
	To 9% Debentures A/c			75,00,000
	(Being 9% debentures issued at 10% discount, redeemable at par)			

Discount on Issue of Debentures A/c may alternatively name the debit in this last entry. The 9% rate states the interest rate; no interest has accrued merely because the debentures are issued.

Step 4: Conclusion The issue entries above balance at Rs 3,45,000, Rs 2,30,000 and Rs 75,00,000 respectively. Loss on issue is Rs 45,000, Rs 10,000 and Rs 7,50,000 in cases (i), (ii) and (iii).

Quick Tip to Solve: Compute cash from the issue price, but always credit Debentures with face value; treat redemption premium as a separate future liability.

25(a). A and B were partners in a firm sharing profits and losses in the ratio of 3 : 1. On 31.03.2022, their Balance Sheet was as follows :

Balance Sheet of A and B as at 31st March, 2022

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Outstanding Expenses	3,000	Bank	40,000
Bills Payable	20,000	Stock	60,000
Sundry Creditors	1,40,000	Bills Receivable	70,000
General Reserve	80,000	Debtors 1,00,000 Less : Provision for doubtful Debts 5,000	95,000
Capitals : A 2,00,000 B 3,00,000	5,00,000	Furniture Machinery Land and Building	85,000 1,10,000 2,83,000
	7,43,000		7,43,000

On the above date, C was admitted as a new partner for 1/5 share in the profits on the following terms :

(i) C will bring Rs. 2,00,000 as her capital and Rs. 1,60,000 as her share of goodwill premium.

(ii) Stock will be appreciated by Rs. 1,500.

(iii) Debtors of Rs. 5,000 will be written off as bad debts and a provision of 10% for bad and doubtful debts will be maintained.

Prepare Revaluation Account and Partners' Capital Accounts. [6 marks]

Solution:

Concept:

- On admission, changes in asset values and liabilities are transferred to Revaluation Account. Its profit or loss belongs to the old partners in their old ratio, here $3:1$.
- Accumulated reserves belong to the old partners. Goodwill premium compensates the sacrificing partners; where no change in their relative shares is specified, A and B sacrifice in $3:1$.

Step 1: Work out the adjustments C receives $1/5$, leaving $4/5$ for A and B. Their new shares are $(4/5)(3/4) = 3/5$ and $(4/5)(1/4) = 1/5$. Their sacrifices are $3/4 - 3/5 = 3/20$ and $1/4 - 1/5 = 1/20$, giving $3:1$. Thus the premium of Rs 1,60,000 is credited Rs 1,20,000 to A and Rs 40,000 to B. The general reserve of Rs 80,000 is credited Rs 60,000 and Rs 20,000 respectively. C's capital is separately credited with Rs 2,00,000.

Step 2: Calculate the revaluation result After writing off Rs 5,000, debtors are Rs 95,000. The required provision is $95,000 \times 10\% =$ Rs $9,500$. Since an existing provision of Rs 5,000 is already recorded, only its increase, Rs 4,500, is charged in addition to the bad debt. Stock appreciation gives a credit of Rs 1,500. Hence revaluation loss is $5,000 + 4,500 - 1,500 =$ Rs $8,000$, borne by A and B as Rs 6,000 and Rs 2,000.

Step 3: Prepare Revaluation Account Revaluation Account (Dr. and Cr.)

Dr. Particulars	Amount (Rs)	Cr. Particulars	Amount (Rs)
To Bad Debts	5,000	By Stock	1,500
To Provision for Doubtful Debts	4,500	By A's Capital (loss)	6,000
		By B's Capital (loss)	2,000
Total	9,500	Total	9,500

Step 4: Prepare the capital accounts Partners' Capital Accounts

Dr. Particulars	A (Rs)	B (Rs)	C (Rs)	Cr. Particulars	A (Rs)	B (Rs)	C (Rs)
To Revaluation	6,000	2,000	–	By Balance b/d	2,00,000	3,00,000	–
To Balance c/d	3,74,000	3,58,000	2,00,000	By General Reserve	60,000	20,000	–
				By Premium for Goodwill	1,20,000	40,000	–
				By Bank	–	–	2,00,000
Total	3,80,000	3,60,000	2,00,000	Total	3,80,000	3,60,000	2,00,000

A: $2,00,000 + 60,000 + 1,20,000 - 6,000 = 3,74,000$. B: $3,00,000 + 20,000 + 40,000 - 2,000 = 3,58,000$. The goodwill premium is retained because withdrawal is not stated. The closing credit balances become the opening balances of the reconstituted firm.

Step 5: Conclusion Revaluation loss is Rs 8,000. Closing capitals are A: Rs 3,74,000; B: Rs 3,58,000; C: Rs 2,00,000.

Quick Tip to Solve: First deduct bad debts from debtors, calculate the new provision, and charge only its increase over the existing provision.

OR

25(b). B, P and T were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. On 31.03.2022, their Balance Sheet was as follows :

Balance Sheet of B, P and T as at 31st March, 2022

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Creditors	1,40,000	Bank	1,44,000
General Reserve	2,00,000	Stock	66,000
Workmen's Compensation Fund	90,000	Debtors 1,50,000 Less : Provision for Doubtful Debts 20,000	1,30,000
Capitals : B 4,00,000 P 2,00,000 T 1,00,000	7,00,000	Furniture Machinery Land and Building	70,000 2,20,000 5,00,000
	11,30,000		11,30,000

On the above date, B retired from the firm on the following terms :

(i) Goodwill of the firm will be valued at Rs. 3,60,000 and B's share will be adjusted without opening goodwill account.

(ii) Furniture will be reduced to Rs. 60,000.

(iii) A claim of Rs. 1,00,000 was admitted for workmen's compensation.

(iv) B was paid Rs. 20,000 through a cheque and the balance was transferred to his loan account.

Prepare Revaluation Account and Partners' Capital Accounts. [6 marks]

Solution:

Concept:

- On retirement, accumulated reserves and revaluation profit or loss are allocated among all old partners in the old ratio, here $5 : 3 : 2$.
- The retiring partner receives goodwill compensation from continuing partners in their gaining ratio. Without a stated new ratio, P and T continue in their existing relative ratio $3 : 2$.
- A specific compensation fund first meets its related claim; a claim exceeding the fund creates a revaluation loss equal to the shortfall.

Step 1: Calculate goodwill and reserve adjustments B's goodwill share is $3,60,000 \times 5/10 =$ Rs $1,80,000$. P and T gain in $3 : 2$, so their capitals are debited Rs 1,08,000 and Rs 72,000, and B's capital is credited Rs 1,80,000. No Goodwill Account is opened. General reserve of Rs 2,00,000 is distributed to B, P and T as Rs 1,00,000, Rs 60,000 and Rs 40,000 respectively.

Step 2: Determine the revaluation loss Furniture falls from Rs 70,000 to Rs 60,000, giving a loss of Rs 10,000. The admitted workmen's compensation claim of Rs 1,00,000 exceeds its existing fund of Rs 90,000 by Rs 10,000. The whole fund is applied to the claim, with no surplus distributable to partners. The shortfall is debited to Revaluation Account. Total loss is therefore Rs 20,000, shared as

B Rs 10,000, P Rs 6,000 and T Rs 4,000.

Step 3: Prepare Revaluation Account Revaluation Account (Dr. and Cr.)

Dr. Particulars	Amount (Rs)	Cr. Particulars	Amount (Rs)
To Furniture	10,000	By B's Capital (loss)	10,000
To Workmen's Compensation Claim (excess)	10,000	By P's Capital (loss)	6,000
		By T's Capital (loss)	4,000
Total	20,000	Total	20,000

Step 4: Prepare the capital accounts and settle B Partners' Capital Accounts

Dr. Particulars	B (Rs)	P (Rs)	T (Rs)	Cr. Particulars	B (Rs)	P (Rs)	T (Rs)
To Revaluation	10,000	6,000	4,000	By Balance b/d	4,00,000	2,00,000	1,00,000
To B's Capital (goodwill)	–	1,08,000	72,000	By General Reserve	1,00,000	60,000	40,000
To Bank	20,000	–	–	By P's Capital (goodwill)	1,08,000	–	–
To B's Loan	6,50,000	–	–	By T's Capital (goodwill)	72,000	–	–
To Balance c/d	–	1,46,000	64,000				
Total	6,80,000	2,60,000	1,40,000	Total	6,80,000	2,60,000	1,40,000

B's total entitlement is $4,00,000 + 1,00,000 + 1,80,000 - 10,000 =$ Rs $6,70,000$. After payment of Rs 20,000 by cheque, Rs 6,50,000 is transferred to B's Loan Account. P's closing capital is $2,00,000 + 60,000 - 1,08,000 - 6,000 = 1,46,000$, and T's is $1,00,000 + 40,000 - 72,000 - 4,000 = 64,000$. B's capital is fully settled; the continuing partners' balances are carried forward.

Step 5: Conclusion Revaluation loss is Rs 20,000. B receives Rs 20,000 by cheque and Rs 6,50,000 in his Loan Account. Closing capitals: P Rs 1,46,000 and T Rs 64,000.

Quick Tip to Solve: Apply the compensation fund to the admitted claim first: distribute only a surplus, and charge a shortfall to revaluation.

26(a). CCL Ltd. invited applications for issuing 75,000 equity shares of Rs. 10 each at a premium of Rs. 3 per share.

The amount was payable as follows :

On Application - Rs. 2 per share

On Allotment - Rs. 6 per share (including premium)

On First Call - Rs. 3 per share

On Second and Final Call - Balance

Applications for 1,20,000 shares were received. Application for 45,000 shares were rejected and the excess application money was refunded. Full allotment was made to remaining applicants. All moneys due were received except for Harish, a shareholder holding 2000 shares, who failed to pay the first and second and final call money.

Pass necessary journal entries for the above transactions in the books of the company. [6 marks]

Solution:

Concept:

- The issue price is Rs 13 per share: Rs 10 is credited to Share Capital and Rs 3 to Securities Premium. Premium is due with allotment.
- Application money on rejected applications is refunded; calls in arrears represent amounts due but not received from shareholders.

Step 1: Calculate the instalments and refunds The final call per share is $13 - 2 - 6 - 3 = \text{Rs } 2$. Application money received is $1,20,000 \times 2 = \text{Rs } 2,40,000$, of which $45,000 \times 2 = \text{Rs } 90,000$ is refunded. The balance Rs 1,50,000 relates to the 75,000 shares allotted. Allotment is Rs 4,50,000, comprising capital Rs 2,25,000 and premium Rs 2,25,000. There is no pro-rata adjustment because rejected applicants receive a refund and the remaining applicants receive full allotment.

Step 2: Record application and allotment Journal of CCL Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		2,40,000	
	To Share Application A/c			2,40,000
	(Being application money received on 1,20,000 shares)			
	Share Application A/c Dr.		2,40,000	
	To Share Capital A/c			1,50,000
	To Bank A/c			90,000
	(Being application transferred and rejected applications refunded)			
	Share Allotment A/c Dr.		4,50,000	
	To Share Capital A/c			2,25,000
	To Securities Premium A/c			2,25,000
	(Being allotment including premium due on 75,000 shares)			
	Bank A/c Dr.		4,50,000	
	To Share Allotment A/c			4,50,000
	(Being allotment money received in full)			

Step 3: Record the calls and unpaid balances First call due is $75,000 \times 3 = \text{Rs } 2,25,000$; Harish owes Rs 6,000, so bank receives Rs 2,19,000. Final call due is Rs 1,50,000; Harish owes Rs 4,000, so bank receives Rs 1,46,000.

Journal of CCL Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First Call A/c Dr.		2,25,000	
	To Share Capital A/c			2,25,000
	(Being first call due)			
	Bank A/c Dr.		2,19,000	
	Calls in Arrears A/c Dr.		6,000	
	To Share First Call A/c			2,25,000
	(Being first call received except on 2,000 shares)			
	Share Second and Final Call A/c Dr.		1,50,000	
	To Share Capital A/c			1,50,000
	(Being second and final call due)			
	Bank A/c Dr.		1,46,000	
	Calls in Arrears A/c Dr.		4,000	
	To Share Second and Final Call A/c			1,50,000
	(Being final call received except on 2,000 shares)			

Step 4: Conclusion CCL Ltd. has called-up share capital of Rs 7,50,000, securities premium of Rs 2,25,000 and calls in arrears of Rs 10,000. Net bank receipts are Rs 9,65,000.

Quick Tip to Solve: Subtract all stated instalments from the issue price, including premium, to obtain the final call.

OR

26(b). Pass necessary journal entries for the forfeiture and reissue of shares in the following cases :

(i) CC Ltd. forfeited 10,000 shares of Rs. 10 each, Rs. 8 called up, for non-payment of allotment money of Rs. 3 per share and first call of Rs. 3 per share. Out of these, 2000 shares were reissued for Rs. 7 per share, Rs. 8 paid up.

(ii) GG Ltd. forfeited 2000 shares of Rs. 10 each fully called up, issued at a premium of 10% on which only application money of Rs. 3 per share was received. Out of these, 500 shares were re-issued at Rs. 11 per share, fully paid up. [6 marks]

Solution:

Concept:

- On forfeiture, debit Share Capital with the called-up capital and credit unpaid instalments; the capital money received is credited to Share Forfeiture.
- Unpaid securities premium is reversed on forfeiture. On reissue, any discount is debited to Share Forfeiture; only the surplus relating to shares actually reissued goes to Capital Reserve.

Step 1: Compute the amounts for CC Ltd. Called-up capital is $10,000 \times 8 = \text{Rs } 80,000$. Unpaid allotment and first call are Rs 30,000 each, so the forfeited capital received is Rs 20,000, or Rs 2 per share. On reissue of 2,000 shares, bank receives Rs 14,000 and paid-up capital is Rs 16,000. The discount of Rs 2,000 is below the forfeiture of Rs 4,000 attributable to these shares; the remaining Rs 2,000 is capital profit.

Step 2: Pass entries in CC Ltd. Journal of CC Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		80,000	
	To Share Allotment A/c			30,000
	To Share First Call A/c			30,000
	To Share Forfeiture A/c			20,000
	(Being 10,000 shares forfeited for unpaid allotment and call)			
	Bank A/c Dr.		14,000	
	Share Forfeiture A/c Dr.		2,000	
	To Share Capital A/c			16,000
	(Being 2,000 shares reissued at Rs 7, Rs 8 paid up)			
	Share Forfeiture A/c Dr.		2,000	
	To Capital Reserve A/c			2,000
	(Being surplus on reissued shares transferred to capital reserve)			

Step 3: Compute the amounts for GG Ltd. The premium is $10\% \times 10 = \text{Rs } 1$ per share. Only application money of Rs 3 was received, so Rs 6,000 is forfeited capital and the unpaid premium of Rs 2,000 must be cancelled. Total unpaid money is $2,000 \times (11 - 3) = \text{Rs } 16,000$, credited to Calls in Arrears. The 500 shares reissued bring Rs 5,500: Rs 5,000 is capital and Rs 500 fresh securities premium. There is no reissue discount, so all $500 \times 3 = \text{Rs } 1,500$ forfeiture attributable to the reissued shares becomes Capital Reserve.

Step 4: Pass entries in GG Ltd. Journal of GG Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		20,000	
	Securities Premium A/c Dr.		2,000	
	To Calls in Arrears A/c			16,000
	To Share Forfeiture A/c			6,000
	(Being 2,000 fully called shares forfeited; unpaid premium reversed)			
	Bank A/c Dr.		5,500	
	To Share Capital A/c			5,000
	To Securities Premium A/c			500
	(Being 500 shares reissued at Rs 11, fully paid up)			
	Share Forfeiture A/c Dr.		1,500	
	To Capital Reserve A/c			1,500
	(Being forfeiture surplus on 500 reissued shares transferred)			

Step 5: Conclusion Capital Reserve is Rs 2,000 for CC Ltd. and Rs 1,500 for GG Ltd. The unreissued shares retain forfeiture balances of Rs 16,000 and Rs 4,500 respectively.

Quick Tip to Solve: Apportion forfeiture to shares reissued before deducting reissue discount; retain the rest for unreissued shares.

Part B (20 marks)

OPTION – I (Analysis of Financial Statements)

27(i). Which of the following is not a Solvency Ratio ? [1 mark]

(a) Interest Coverage Ratio

(b) Return on Investment

(c) Debt to Capital Employed Ratio

(d) Total Assets to Debt Ratio

Correct Answer: (b) Return on Investment

Solution:

Concept:

- Solvency ratios assess long-term financial security, the debt burden and the ability to service interest.
- Return on Investment measures profitability: profit before interest and tax as a percentage of capital employed.

Step 1: Identify the profitability measure Return on Investment compares earnings with capital invested. It indicates the efficiency with which capital generates profits and therefore belongs to profitability ratios.

Step 2: Check the remaining options Interest Coverage Ratio compares profit before interest and tax with interest expense and measures interest-paying capacity. Debt to Capital Employed Ratio measures the debt share in long-term funds. Total Assets to Debt Ratio measures the asset cover for long-term debt. Thus (a), (c) and (d) are all solvency ratios.

Step 3: Conclusion Return on Investment is not a solvency ratio. Hence, the correct option is (b).

Quick Tip to Solve: Identify what the ratio measures: earnings yield indicates profitability; debt cover indicates solvency.

OR

27(ii). Which of the following are known as Efficiency Ratios ? [1 mark]

(A) Liquidity Ratios

(B) Solvency Ratios

(C) Activity Ratios

(D) Profitability Ratios

Correct Answer: (C) Activity Ratios

Solution:

Concept:

- Activity ratios measure how efficiently a business uses its assets to generate revenue. They are also called turnover or efficiency ratios.
- Examples include inventory turnover, trade receivables turnover and working capital turnover.

Step 1: Identify the ratio family Efficiency concerns the speed and effectiveness with which resources are used in operations. Activity ratios relate revenue or cost of revenue to the relevant asset or working capital balance, so they answer this question directly.

Step 2: Eliminate the other choices Liquidity ratios assess short-term payment capacity; solvency ratios assess long-term debt servicing capacity; profitability ratios assess earning performance. These are separate purposes, so options (A), (B) and (D) do not name efficiency ratios.

Step 3: Conclusion Activity Ratios are known as Efficiency Ratios. Hence, the correct option is (C).

Quick Tip to Solve: Link efficiency with asset turnover: faster use of resources is measured by activity ratios.

28(i). Which of the following is a tool of 'Analysis of Financial Statements' ? [1 mark]

(A) Statement of Profit and Loss

(B) Balance Sheet

(C) Ratio Analysis

(D) Both (a) and (b)

Correct Answer: (C) Ratio Analysis

Solution:

Concept:

- Financial statements provide the underlying financial data; analytical tools process that data for interpretation.
- Ratio analysis establishes meaningful relationships between related financial statement items.

Step 1: Identify an analytical technique Ratio analysis calculates relationships such as current assets to current liabilities or gross profit to revenue. These relationships help users compare performance, financial position and changes across periods.

Step 2: Distinguish statements from tools The Statement of Profit and Loss and the Balance Sheet are

financial statements on which analysis is performed. Neither is itself the analytical technique asked for. Therefore, options (A), (B), and the combination in option (D) are eliminated.

Step 3: Conclusion Ratio Analysis is a tool of Analysis of Financial Statements. Hence, the correct option is (C).

Quick Tip to Solve: Ask whether an option supplies the financial data or analyses relationships within that data.

OR

28(ii). If the Operating Ratio of Pathway Ltd. is 30%, its Operating Profit Ratio will be : [1 mark]

(A) 100%

(B) 30%

(C) 130%

(D) 70%

Correct Answer: (D) 70%

Solution:

Concept:

- Operating ratio is operating cost divided by revenue from operations, multiplied by 100.
- Operating profit equals revenue from operations less operating cost; therefore operating ratio and operating profit ratio together equal 100%.

Step 1: Apply the complementary relationship Both ratios use revenue from operations as their denominator. Hence,

$$\text{Operating Profit Ratio} = 100\% - \text{Operating Ratio}.$$

This identity follows because operating cost and operating profit together exhaust revenue from operations.

Step 2: Substitute and check the options For Pathway Ltd.,

$$\text{Operating Profit Ratio} = 100\% - 30\% = 70\%.$$

Option (B) repeats the cost ratio, option (A) ignores the operating cost, and option (C) incorrectly adds the two percentages. Only option (D) gives the remainder of revenue after operating cost.

Step 3: Conclusion The Operating Profit Ratio is 70%. Hence, the correct option is (D).

Quick Tip to Solve: Use operating profit ratio = 100% minus operating ratio because the two share the same revenue base.

29. Which of the following is added back to net profit to calculate net cash flow from operating activities ? [1 mark]

(A) Interest Received

(B) Finance Cost

(C) Rent Received

(D) Commission Received

Correct Answer: (B) Finance Cost

Solution:

Concept:

- Under the indirect method, net profit is adjusted for non-cash items and items relating to investing or financing activities.
- Finance cost charged to profit is added back when determining operating profit before working capital changes.

Step 1: Identify the expense to reverse Finance cost, such as interest on borrowings, reduces accounting profit. Since it relates to financing activities for a non-financial enterprise, its deduction is reversed by adding it back when calculating cash flow from operating activities.

Step 2: Check the remaining receipts Interest received is income associated with investing activities and, if included in net profit, is deducted rather than added. Rent received is also an income item, not a finance expense to add back. Commission received in ordinary operations remains operating income; it is not an add-back merely because it is a receipt.

Step 3: Conclusion Finance Cost is added back to net profit. Hence, the correct option is (B).

Quick Tip to Solve: An expense of a financing nature deducted in profit is added back before operating cash flow is calculated.

30. 'Cash receipts from sale of machinery' by a machinery dealer will be considered which type of activity from the following while preparing Cash Flow Statement ? [1 mark]

(A) Investing Activity

(B) Operating Activity

(C) Financing Activity

(D) Both Investing and Financing Activity

Correct Answer: (B) Operating Activity

Solution:

Concept:

- Operating activities are the principal revenue-producing activities of an enterprise.
- Cash-flow classification depends on the nature of the business and the purpose for which the asset is held.

Step 1: Determine what machinery represents For a machinery dealer, machinery is stock-in-trade

held for sale in the ordinary course of business. Cash collected from its sale is therefore a receipt from the dealer's principal revenue-producing operations.

Step 2: Eliminate other classifications Investing activities involve acquisition or disposal of long-term assets or investments; machinery held as inventory does not fall in that category. Financing activities change owners' capital or borrowings. An ordinary inventory sale causes neither type of financing change, so options (A), (C) and (D) do not apply.

Step 3: Conclusion The cash receipt is an Operating Activity. Hence, the correct option is (B).

Quick Tip to Solve: Before classifying an asset sale, decide whether that asset is inventory for the particular business.

31. 'These ratios are calculated to determine the ability of the business to service its debt in the long run.' Identify and state the significance of three such ratios. [3 marks]

Solution:

Concept:

- The ratios described are solvency ratios. They assess the ability of a business to meet long-term debt obligations and the associated interest commitments.
- Solvency analysis considers both the capital structure and the earnings available to service debt; no single ratio presents the entire position.

Step 1: Debt-equity ratio

$$\text{Debt-Equity Ratio} = \frac{\text{Long-term Debt}}{\text{Shareholders' Funds}}.$$

It measures the proportion of long-term borrowed funds relative to owners' funds. A lower ratio generally indicates a larger owners' cushion for long-term lenders and lower financial risk; a higher ratio indicates greater dependence on debt.

Step 2: Total assets to debt ratio

$$\text{Total Assets to Debt Ratio} = \frac{\text{Total Assets}}{\text{Long-term Debt}}.$$

It measures the extent to which total assets cover long-term debt. A higher ratio generally provides greater asset security to lenders, whereas a lower ratio indicates a smaller margin of protection.

Step 3: Interest coverage ratio

$$\text{Interest Coverage Ratio} = \frac{\text{Profit before Interest and Tax}}{\text{Interest on Long-term Debt}}.$$

It shows how many times earnings before interest and tax cover the interest obligation. A higher ratio indicates greater ability to pay interest and a better safety margin against a fall in earnings.

Step 4: Conclusion These are Solvency Ratios. Debt-equity ratio, total assets to debt ratio and interest coverage ratio assess capital dependence, asset security and interest-servicing ability respectively.

Quick Tip to Solve: For long-term solvency, connect one ratio to borrowed capital, one to asset cover and one to interest cover.

32. Classify the following items under major heads and sub-heads (if any) in the Balance Sheet of a company as per Schedule III, Part I of the Companies Act, 2013 :

(a) Computer Software

(b) Work-in-Progress

(c) Calls in Advance [3 marks]

Solution:

Concept:

- Schedule III classifies assets into non-current and current assets and liabilities according to their nature and settlement characteristics.
- Software is an intangible asset; work-in-progress forms part of inventory; calls received before they become due are a liability.

Step 1: Classify computer software Computer software has no physical substance and provides benefits over more than one accounting period. It is therefore shown under Non-current Assets, within Fixed Assets, under Intangible Assets. It is not tangible plant merely because it is used on a computer.

Step 2: Classify work-in-progress Work-in-progress consists of goods whose production is incomplete. It is held within the normal operating cycle and is therefore included under Current Assets, sub-head Inventories. It must not be confused with capital work-in-progress, which concerns construction of a fixed asset.

Step 3: Classify calls in advance Calls in advance are amounts received from shareholders against calls that the company has not yet made. Until the call becomes due, the amount is a liability and is shown under Current Liabilities, sub-head Other Current Liabilities; it is not added to paid-up share capital. The classifications can be presented as the following balance sheet extract.

Balance Sheet Extract

Item	Major head	Sub-head
Computer Software	Non-current Assets	Fixed Assets: Intangible Assets
Work-in-Progress	Current Assets	Inventories
Calls in Advance	Current Liabilities	Other Current Liabilities

Step 4: Conclusion Computer Software: Non-current Assets, Intangible Assets; Work-in-Progress: Current Assets, Inventories; Calls in Advance: Current Liabilities, Other Current Liabilities.

Quick Tip to Solve: Distinguish trading work-in-progress from capital work-in-progress, and advance calls from called-up share capital.

33(a). The Current Ratio of J.C. Ltd. is 3 : 1. Its current liabilities are Rs. 2,00,000. The current assets include closing stock of Rs. 15,000 and prepaid insurance premium of Rs. 5,000.

Calculate its Quick Ratio. [4 marks]

Solution:

Concept:

- The current ratio compares current assets with current liabilities:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}.$$

  It gives the total short-term asset cover for short-term obligations.
- The quick ratio uses only quick assets:

$$\begin{aligned}\text{Quick Assets} = \text{Current Assets} &- \text{Inventory} \\ &- \text{Prepaid Expenses}.\end{aligned}$$

  Inventory requires sale before becoming cash, while prepaid insurance represents a service already paid for rather than cash available to discharge a liability.

Step 1: Determine current assets from the current ratio The current ratio of $3 : 1$ means that current assets are three times current liabilities. Since current liabilities are Rs 2,00,000,

$$\text{Current Assets} = 3 \times \text{Rs } 2,00,000 = \text{Rs } 6,00,000.$$

This figure includes both closing stock and prepaid insurance, so neither should be added to it again.

Step 2: Calculate the quick assets Deduct the two current assets that do not qualify as quick assets. Closing stock is Rs 15,000 and prepaid insurance premium is Rs 5,000. Thus,

$$\begin{aligned}\text{Quick Assets} &= \text{Rs } 6,00,000 - \text{Rs } 15,000 - \text{Rs } 5,000 \\ &= \text{Rs } 5,80,000.\end{aligned}$$

The exclusion totals Rs 20,000; all remaining current assets form the numerator of the quick ratio.

Step 3: Compare quick assets with current liabilities Use the same current liabilities of Rs 2,00,000 in the denominator:

$$\text{Quick Ratio} = \frac{\text{Rs } 5,80,000}{\text{Rs } 2,00,000} = 2.9.$$

Therefore, each rupee of current liabilities is covered by Rs 2.90 of quick assets. The ratio is slightly below the current ratio because stock and prepaid insurance have been excluded.

Step 4: Conclusion The Quick Ratio of J.C. Ltd. is $\boxed{2.9 : 1}$.

Quick Tip to Solve: First obtain current assets using the current ratio; then subtract both stock and prepaid insurance before dividing by current liabilities.

OR

33(b). From the following information calculate Inventory Turnover Ratio :

Stock in the beginning Rs. 40,000

Stock at the end Rs. 20,000 more than in the beginning

Credit purchases Rs. 2,20,000

Revenue from operations Rs. 4,80,000 [4 marks]

Solution:

Concept:

- Inventory Turnover Ratio measures how often the average inventory is sold during the period: Inventory Turnover Ratio $=$ Cost of Revenue from Operations/Average Inventory. Both numerator and denominator must be measured at cost.
- For a trading concern, Cost of Revenue from Operations $=$ Opening Inventory $+$ Net Purchases $-$ Closing Inventory, and Average Inventory $=$ (Opening Inventory $+$ Closing Inventory)$/2$.

Step 1: Find the closing inventory The opening inventory is Rs 40,000. Closing inventory is Rs 20,000 more than the opening inventory, so

$$\text{Closing Inventory} = \text{Rs } 40,000 + \text{Rs } 20,000 = \text{Rs } 60,000.$$

The words "more than" indicate an increase; Rs 20,000 is the difference between the inventories, not the value of closing inventory itself.

Step 2: Calculate cost of revenue from operations The purchases supplied in the question are credit purchases of Rs 2,20,000. No cash purchases, purchase returns or direct expenses are stated. Using the given purchases,

$$\begin{aligned}\text{Cost of Revenue from Operations} &= \text{Opening Inventory} + \text{Purchases} \\ &\quad - \text{Closing Inventory} \\ &= \text{Rs } 40,000 + \text{Rs } 2,20,000 \\ &\quad - \text{Rs } 60,000 \\ &= \text{Rs } 2,00,000.\end{aligned}$$

Closing inventory is deducted because those goods remain unsold at the end of the period.

Step 3: Find average inventory and calculate turnover The mean of the opening and closing inventory is

$$\text{Average Inventory} = \frac{\text{Rs } 40,000 + \text{Rs } 60,000}{2} = \text{Rs } 50,000.$$

Hence,

$$\text{Inventory Turnover Ratio} = \frac{\text{Rs } 2,00,000}{\text{Rs } 50,000} = 4 \text{ times}.$$

Revenue from operations of Rs 4,80,000 is at selling price and is not the numerator of this ratio. Using it directly would mix sales value with inventory at cost.

Step 4: Conclusion The Inventory Turnover Ratio is $\boxed{4 \text{ times}}$.

Quick Tip to Solve: Convert the closing-stock increase into closing stock first, and use cost of goods sold rather than sales when calculating inventory turnover.

34. Read the following hypothetical text and answer the given questions on this basis :

Shobha started a small enterprise selling hand-knitted sweaters under 'Skill India Scheme'. As the business grew, the revenue started increasing. On 1st April 2020, she decided to form 'Shobha Ltd.' along with twelve other like-minded persons. The Balance Sheet of Shobha Ltd. as at 31st March, 2022, is given below.

From the figures given in the Balance Sheet and additional information, calculate 'Cash Flows from Investing Activities' and 'Cash Flows from Financing Activities'.

Balance Sheet of SHOBHA Ltd. as at 31st March, 2022

Particulars	Note No.	31.3.2022 (Rs.)	31.3.2021 (Rs.)
I - Equity and Liabilities :			
1. Shareholders' Funds			
(a) Equity Share Capital		8,00,000	6,00,000
(b) Reserves and Surplus	1	2,00,000	50,000
2. Non-Current Liabilities			
Long-term Borrowings	2	4,00,000	3,00,000
3. Current Liabilities			
(a) Trade Payables		40,000	45,000
(b) Bank Overdraft		1,00,000	85,000
(c) Short-term Provisions	3	30,000	20,000
Total		15,70,000	11,00,000
II - Assets :			
1. Non-Current Assets			
Fixed Assets			
(i) Tangible Assets	4	6,00,000	5,00,000
(ii) Intangible Assets	5		50,000
2. Current Assets			
(a) Inventories		5,00,000	4,00,000
(b) Trade Receivables		4,00,000	90,000
(c) Cash and Cash Equivalents		70,000	60,000
Total		15,70,000	11,00,000

Notes to Accounts:

Note	Particulars	31.3.2022 (Rs)	31.3.2021 (Rs)
1	Reserves and Surplus: Balance in Statement of Profit and Loss	 2,00,000	 50,000
2	Long-term Borrowings: 10% Debentures	 4,00,000	 3,00,000
3	Short-term Provisions: Provision for tax	 30,000	 20,000
4	Tangible Assets: Machinery Less: Accumulated Depreciation Net Tangible Assets	7,00,000 (1,00,000) 6,00,000	6,50,000 (1,50,000) 5,00,000
5	Intangible Assets: Goodwill	–	50,000

Additional Information :

(i) A piece of machinery costing Rs. 1,60,000 was sold at a loss of Rs. 20,000. Depreciation charged during the year amounted to Rs. 40,000.

(ii) Rs. 1,00,000, 10% debentures were issued on 31.3.2022. [6 marks]

Solution:

Concept:

- Investing activities include cash paid to acquire machinery and cash received on its disposal; depreciation and goodwill written off are non-cash items.
- For a non-financial enterprise, proceeds of share and debenture issues and the increase in bank overdraft are financing inflows; interest paid is a financing outflow.
- The book value of machinery sold equals original cost less its accumulated depreciation; sale proceeds equal book value less loss on sale.

Step 1: Work out accumulated depreciation on machinery sold The opening accumulated depreciation is Rs 1,50,000, the current charge is Rs 40,000 and the closing balance is Rs 1,00,000. Hence depreciation removed with the asset sold is

$$1,50,000 + 40,000 - 1,00,000 = \text{Rs } 90,000.$$

The carrying amount of that asset is therefore $1,60,000 - 90,000 = \text{Rs } 70,000$. Since it was sold at a loss of Rs 20,000, the cash received is $70,000 - 20,000 = \text{Rs } 50,000$. The loss is not deducted again in the investing section: it has already been used to determine the cash proceeds.

Step 2: Find the purchase of machinery Use the gross cost figures in Note 4 rather than the net carrying amounts. Opening machinery cost plus purchases minus cost disposed of equals closing machinery cost. Thus

$$6,50,000 + \text{Purchases} - 1,60,000 = 7,00,000,$$
$$\text{Purchases} = \text{Rs } 2,10,000.$$

This acquisition is a cash outflow. The goodwill balance disappearing from the balance sheet does not establish a cash receipt: no sale proceeds are stated, so the write-off does not enter investing cash flows.

Step 3: Prepare the investing section Shobha Ltd.: Cash flows from investing activities for the year ended 31st March, 2022

Particulars	Amount (Rs)
Proceeds from sale of machinery	50,000
Purchase of machinery	(2,10,000)
Net cash used in investing activities	(1,60,000)

Step 4: Determine financing receipts and interest Equity share capital increased from Rs 6,00,000 to Rs 8,00,000, giving issue proceeds of Rs 2,00,000. Debentures of Rs 1,00,000 were issued on 31st March, 2022. Since these were issued on the last day of the year, annual interest is calculated on opening debentures only: $3,00,000 \times 10\% = \text{Rs } 30,000$. No outstanding interest is given, so this is treated as interest paid. The bank overdraft rose from Rs 85,000 to Rs 1,00,000, giving an additional financing inflow of Rs 15,000. Trade payables and tax provisions belong to operating adjustments and do not enter this section.

Step 5: Prepare the financing section Shobha Ltd.: Cash flows from financing activities for the year ended 31st March, 2022

Particulars	Amount (Rs)
Proceeds from issue of equity shares	2,00,000
Proceeds from issue of 10% debentures	1,00,000
Increase in bank overdraft	15,000
Interest paid on debentures	(30,000)
Net cash from financing activities	2,85,000

Step 6: Conclusion Net cash used in investing activities is $\boxed{\text{Rs } 1,60,000}$; net cash generated from financing activities is $\boxed{\text{Rs } 2,85,000}$.

Quick Tip to Solve: First separate gross machinery cost from accumulated depreciation; calculate interest using the issue date of new debentures.

OPTION II (Computerised Accounting)

27(i). Entries required to make Trading account and Profit and Loss account are known as : [1 mark]

(A) Opening entries

(B) Adjustment entries

(C) Closing entries

(D) (a) and (b) both

Correct Answer: (C) Closing entries

Solution:

Concept:

- Closing entries transfer nominal-account balances to Trading and Profit and Loss Accounts at the end of the accounting period.
- Opening entries bring forward assets, liabilities and capital; adjustment entries recognise accrued or prepaid amounts.

Step 1: Identify the purpose Preparation of Trading Account requires transfer of purchases, sales and direct expenses. Profit and Loss Account receives indirect expenses and incomes. These transfers close the respective nominal accounts for the year.

Step 2: Compare the choices Opening entries begin the period rather than close revenue accounts. Adjustment entries update balances for outstanding, prepaid or similar items before final accounts are prepared. Neither describes the transfer entries themselves; hence the combined choice also fails.

Step 3: Conclusion The correct option is (C): Closing entries.

Quick Tip to Solve: Identify whether an entry brings balances forward, adjusts them, or closes nominal accounts.

OR

27(ii). A cell reference that holds either row or column constant when the formula or function is copied to another location is known as : [1 mark]

(A) Range

(B) Absolute cell reference

(C) Relative cell reference

(D) Mixed cell reference

Correct Answer: (D) Mixed cell reference

Solution:

Concept:

- A mixed reference fixes exactly one component: either the column or the row.
- A dollar sign before the column or row fixes that component when copying a formula.

Step 1: Apply the definition In $\$A1$, column A stays fixed while the row may change. In $A\$1$, row 1 stays fixed while the column may change. Both are mixed cell references.

Step 2: Eliminate the alternatives An absolute reference such as $\$A\$1$ fixes both components. A relative reference such as $A1$ fixes neither. A range denotes a group of cells rather than this rule for fixing a reference component.

Step 3: Conclusion The correct option is (D): Mixed cell reference.

Quick Tip to Solve: Count dollar signs: one fixes either row or column; two fix both.

28. A sequential code refers to code applied to some documents where : [1 mark]

(A) account heads are assigned to documents.

(B) special names are given to documents.

(C) documents are arranged in special sequence.

(D) numbers and letters are assigned in consecutive order.

Correct Answer: (D) numbers and letters are assigned in consecutive order.

Solution:

Concept:

- Sequential codes allocate successive identifiers to documents or records.
- The defining feature is consecutive assignment rather than classification by account or descriptive names.

Step 1: Recognise consecutive assignment A sequential scheme assigns the next available code to each succeeding document, for example 001, 002 and 003. Thus numbers or letters follow a consecutive order and identify records systematically.

Step 2: Compare all alternatives Assigning account heads concerns classification, while giving special names concerns descriptive identification. Arranging documents in a special sequence does not itself

state that consecutive codes have been allocated. The last option directly states the essential coding rule.

Step 3: Conclusion The correct option is (D): numbers and letters are assigned in consecutive order.

Quick Tip to Solve: Look for consecutive identifiers when distinguishing sequential coding from descriptive coding.

29. Which of the following menu is used to create a ledger in Tally ? [1 mark]

(A) Gateway of Tally > Master > Accounting information > Ledger > Alter

(B) Gateway of Tally > Master > Accounting information > Ledger > Create

(C) Gateway of Tally > Master > Accounting information > Ledger > Display

(D) Gateway of Tally > Create > Master > Edit > Accounting information > Ledger

Correct Answer: (B) Gateway of Tally > Master > Accounting information > Ledger > Create

Solution:

Concept:

- A ledger is an accounting master used to record transactions for a particular account.
- The Create command adds a new master; Alter edits an existing master and Display only views it.

Step 1: Follow the accounting master route From Gateway of Tally, move through Master, Accounting information and Ledger. To make a new ledger, the final command must be Create. This is exactly the path stated in option (B).

Step 2: Check the remaining commands Option (A) ends in Alter and therefore changes an existing ledger. Option (C) ends in Display and therefore only shows an existing ledger. Option (D) places Create before the accounting-master hierarchy and includes Edit, so it does not give the required creation path.

Step 3: Conclusion The correct option is (B): Gateway of Tally > Master > Accounting information > Ledger > Create.

Quick Tip to Solve: Read the last command first: a new ledger requires Create, while Alter and Display serve existing ledgers.

30(i). Computer-related peripherals and their network is known as which of the following components of Computerised Accounting System ? [1 mark]

(A) Procedure

(B) Data

(C) Hardware

(D) Software

Correct Answer: (C) Hardware

Solution:

Concept:

- Hardware means the physical equipment used by a computerised accounting system, including peripherals and network devices.
- Software supplies instructions, data supplies facts, and procedures specify how the system is used.

Step 1: Identify the physical component Computer-related peripherals include input, output and storage devices, and network equipment connects the computers. These are tangible resources forming the hardware component of a computerised accounting system.

Step 2: Exclude the other components Procedure refers to rules and steps followed by users. Data consists of facts entered and processed into information. Software consists of programs that direct processing. None of these names the physical peripherals and their network described in the question.

Step 3: Conclusion The correct option is (C): Hardware.

Quick Tip to Solve: Classify tangible devices as hardware; distinguish them from programs, facts and operating procedures.

OR

30(ii). Which of the following functions automatically totals a column or row of values ? [1 mark]

(A) AVG

(B) TOTAL

(C) SUM

(D) ADD

Correct Answer: (C) SUM

Solution:

Concept:

- The SUM function adds the numerical values in a selected spreadsheet range.
- A range such as A1:A5 identifies consecutive cells in one column; A1:E1 identifies cells in one row.

Step 1: Identify the required operation To total a row or column, the spreadsheet must add the values in its cells. For example, =SUM(A1:A5) adds the values from A1 through A5. The AutoSum facility inserts a SUM formula for the selected range.

Step 2: Compare the alternatives SUM is the standard function for this addition. AVG suggests an average, which divides a total by the number of values rather than returning the total; the standard Excel function for that operation is AVERAGE. TOTAL and ADD are not the standard function names for automatically summing the selected range.

Step 3: Conclusion The correct option is (C): SUM.

Quick Tip to Solve: To add a continuous row or column, select its cells and use AutoSum, then check the suggested range.

31. State two disadvantages and one advantage of Computerised Accounting System. [3 marks]

Solution:

Concept:

- A computerised accounting system records and processes accounting transactions using accounting software and computer equipment.
- Its benefits arise from automatic processing, while its limitations include dependence on trained users and exposure of stored data to security risks.

Step 1: Disadvantage 1: Need for trained personnel Employees must know both accounting procedures and the operation of the accounting software. Installing a system therefore requires training, and later changes in software may require retraining. An untrained operator may select the wrong ledger, enter incorrect data or misuse a feature, producing incorrect reports despite fast processing.

Step 2: Disadvantage 2: Security risks Accounting data can be accessed or altered by unauthorised persons if passwords and access controls are inadequate. Viruses or malicious software can also damage records. Thus, confidential financial information and the integrity of the books depend on effective security controls and suitable backups.

Step 3: Advantage: Speed Once transactions have been entered correctly, the system processes large volumes of data quickly. It can post entries, calculate balances and generate the trial balance and financial statements without repeatedly performing the same calculations manually. This makes accounting information available promptly for decisions.

Step 4: Conclusion Two disadvantages are the need for trained personnel and security risks. One advantage is the high speed of processing and reporting.

Quick Tip to Solve: State two distinct limitations, then one clear benefit; explain how each affects accounting work.

32. Explain the Account group Loans (Liabilities) from Account group of Balance Sheet. [3 marks]

Solution:

Concept:

- An account group collects ledger accounts of a similar nature so that software can classify balances and prepare financial reports.
- Loans (Liabilities) contains borrowing obligations of the business; money borrowed is a liability because it must be repaid.

Step 1: Meaning and placement of the group Loans (Liabilities) is a principal balance-sheet account group used for the loan accounts of the business. It groups amounts borrowed from banks, financial institutions or other lenders. These accounts normally have credit balances and represent obligations payable by the business. Loans advanced by the business are assets and do not belong in this group.

Step 2: Secured and unsecured loans Secured Loans is a subgroup for loans supported by security over business assets, such as a bank term loan secured by a mortgage of property. Unsecured Loans records borrowings for which no specific asset is pledged as security, such as an unsecured loan from a director. The presence or absence of security determines the appropriate subgroup.

Step 3: Bank overdraft and cash credit Bank OD Accounts is the subgroup for bank overdraft or cash-credit borrowing accounts. These facilities allow the business to draw money within a sanctioned limit and create an amount payable to the bank. Keeping these borrowing accounts within the correct group enables the software to aggregate them and present liabilities properly in the Balance Sheet.

Step 4: Conclusion Loans (Liabilities) groups the business's borrowings under Secured Loans, Unsecured Loans and Bank OD Accounts, including cash-credit accounts.

Quick Tip to Solve: Ask whether the business borrowed or lent the money; classify borrowings further by security or bank OD facility.

33(a). What are the reasons if 'Correct #N/A Error' appears on the computer screen while working on a spreadsheet ? How can it be corrected ? [4 marks]

Solution:

Concept:

- The spreadsheet error $\#N/A$ means that a value needed by a formula is not available.
- It commonly occurs in lookup functions when the requested value cannot be found, and it can also arise from missing required arguments or unavailable source data.

Step 1: Reason 1: Lookup value is absent or does not match A lookup formula may search for a code or name that does not exist in the specified lookup range. A mismatch may also be caused by spelling errors, leading or trailing spaces, or a number stored as text in one place and as a number in another. Correction: verify the lookup value and source list, correct typing and spaces, and make the data types consistent. Supply the missing record if it should exist.

Step 2: Reason 2: Incorrect lookup range or matching arrangement The lookup range may exclude the required record, or the formula may search the wrong column or row. An approximate lookup

can also return an unavailable result when its required ordering or boundary conditions are not met. Correction: select the correct range and search column or row. Use exact matching when an exact code is required; when approximate matching is intended, arrange the lookup data as the function requires.

Step 3: Reason 3: Missing or unavailable data or arguments A formula may have a required argument omitted, refer to a cell containing $\#N/A$, or depend on data that has not yet been supplied. The error then passes into formulas using that value. Correction: check the function syntax and provide each required argument. Trace the referenced cells and replace an unintended $\#N/A$ or missing input with the correct data.

Step 4: Verify the correction After correcting the cause, recalculate the formula and check that the returned value is appropriate. If a missing match is an expected outcome, IFNA may display a suitable message instead of the error. Such handling is useful for presentation, but it does not supply an absent record or correct an incorrectly specified formula.

Step 5: Conclusion The $\#N/A$ error indicates an unavailable value. Correct it by supplying missing data or arguments, fixing lookup values and ranges, and ensuring the required matching conditions are satisfied.

Quick Tip to Solve: For a lookup error, check the searched value, its data type and spaces, then the search range and match setting.

OR

33(b). State the steps to be taken in preparation of a chart. [4 marks]

Solution:

Concept:

- A chart presents worksheet data graphically, making comparisons and trends easier to understand. Its source range includes numerical values and the headings that identify categories and series.
- A suitable chart type, correctly defined data series and clear chart elements are essential for an accurate presentation.

Step 1: Prepare and select the data Enter the data in a worksheet in a suitable table, with meaningful row and column headings. Select the range of cells containing the values to be plotted together with their relevant headings. Exclude unrelated totals and blank rows from the selected range.

Step 2: Choose the chart type Select the Chart command from the Insert menu or tab to open the chart creation facility. Choose a suitable chart type and sub-type: for example, columns for comparing categories, a line for changes over time, or a pie for parts of a whole. Proceed to the next stage of the chart wizard, where applicable.

Step 3: Confirm the source data and chart options Check the selected data range and specify whether data series are arranged in rows or columns. Verify the series names and category labels. Enter a meaningful chart title and axis titles where applicable. Set the required legend, gridlines and data labels. Inspect the preview to ensure that the chart represents the intended values and categories

correctly.

Step 4: Select the chart location and complete it Choose whether to place the chart as an embedded object on the existing worksheet or on a separate chart sheet. Click Finish or complete the insertion. Position and resize the chart, and format its labels and other elements so that the final chart is readable.

Step 5: Conclusion Prepare and select the data, choose the chart type, confirm source data and chart options, and specify the chart location to complete the chart.

Quick Tip to Solve: Recall the wizard sequence: chart type, source data, chart options and location; select the labelled data before starting.

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34. Name and explain the financial function which will be used to know the returns in today's currency value of a series of future payments assuming constant payments and rate of interest. [6 marks]

Solution:

Concept:

- The Present Value function, PV, finds the value today of a series of equal future payments, discounted at a constant interest rate. Money receivable later is discounted because money available today can earn interest.
- The rate and number of periods must use the same time unit. Spreadsheet financial functions treat cash paid out and cash received as amounts with opposite signs.

Step 1: Identify the function and its syntax The required financial function is PV (Present Value). Its spreadsheet syntax is `=PV(rate, nper, pmt, [fv], [type])`. It gives the present worth of an annuity involving constant periodic payments and a constant interest rate, optionally including a lump sum at the end.

Step 2: Explain the compulsory arguments `rate` is the interest or discount rate per payment period. For monthly payments at an annual rate of 12%, enter $12\%/12$, or 1%, per month. `nper` is the total number of payment periods; five years of monthly payments means $5 \times 12 = 60$ periods. `pmt` is the equal payment made or received in each period. It remains constant over the annuity term. The same periodic basis must be used for all three arguments.

Step 3: Explain the optional arguments and sign convention `fv` is the future value or cash balance required after the last payment. If omitted, it is taken as zero. `type` specifies the timing of payments: 0, also the default when omitted, means payments at the end of each period; 1 means payments at the beginning. Enter payments and receipts with opposite signs. Thus, if future payments received are entered as positive, PV returns a negative amount representing the equivalent investment paid today. Its magnitude is their present worth.

Step 4: Illustrate the calculation Suppose Rs 1,000 is to be received at the end of each year for three years and the discount rate is 10% per year. To obtain a positive present-value result, enter the

payment as a negative cash flow in the formula `=PV(10%,3,-1000,0,0)`. The calculation is

$$\begin{aligned} PV &= \frac{1,000}{1.10} + \frac{1,000}{(1.10)^2} + \frac{1,000}{(1.10)^3} \\ &= 1,000\left[\frac{1-(1.10)^{-3}}{0.10}\right] \\ &\approx \text{Rs } 2,486.85. \end{aligned}$$

The three future payments therefore have a combined present worth of approximately Rs 2,486.85 at this rate. For a general end-of-period annuity with no terminal balance, the magnitude is $PV = P[1-(1+r)^{-n}]/r$, where P is each payment, r is the periodic rate and n is the number of payments. At zero interest, it is simply nP.

Step 5: Conclusion Use the PV function to find the current monetary value of constant future periodic payments at a constant interest rate, supplying the periodic rate, number of periods, payment, and any required future value and payment timing.

Quick Tip to Solve: Match rate and nper to the payment interval, and use opposite signs for an investment today and the payments it generates.